

**Office of Inspector General
U.S. Department of Transportation**



Semiannual Report to Congress



October 1, 2002–March 31, 2003



SEMIANNUAL REPORT TO CONGRESS

October 1, 2002–March 31, 2003





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FROM THE INSPECTOR GENERAL

After a period in which transportation security necessarily consumed much of our attention, we have turned our emphasis to the reauthorization of four major programs — FAA, Federal Highway, Amtrak, and the Maritime Administration — an array of pressing safety issues, and the effects of an extremely tight economic environment characterized by multibillion dollar declines in the Aviation and Highway trust funds and competing transportation demands on the General Fund.

Transportation-related accidents claim 43,000 lives and cost over \$230 billion annually. While we have made substantial progress in reducing highway fatalities and injuries, about 45 percent of deaths from unintentional injury involve transportation. In support of Secretary Mineta's determination to reduce these deaths and injuries, we are conducting oversight of several safety programs, including:

- NHTSA's implementation of regulations requiring auto manufacturers to provide early information on vehicle defects;
- FAA's oversight of aviation third-party repair stations, and its continuing work to reduce runway incursions and operational errors;
- FMCSA's expansion of its compliance and enforcement program to include safety audits of new motor carrier operations; and
- FRA's efforts to increase safety at rail-highway grade crossings.

We will be closely monitoring the reauthorization of FAA, Federal Highway, intercity rail, and MARAD. As our testimonies have emphasized, growing competition for program funds alongside shrinking projections for two major funding sources — the Aviation and Highway trust funds — underscore the importance of achieving cost savings through enhanced management, oversight, and accountability.

For example, Aviation Trust Fund revenues are expected to be about \$10 billion less over the next 4 years than earlier projections. At the same time, five of FAA's major acquisition projects have increased by more than \$3 billion. Concurrently, FAA's budget has grown over 70 percent — from \$8.2 billion in FY 1996 to \$14 billion in FY 2004.

Since 1996, FAA has experienced substantial increases in workforce costs. The average base salary for fully certified controllers has risen to over \$106,000 — a 47 percent increase over the 1998 average of about \$72,000 — compared with an average salary increase for all other FAA employees of about 32 percent. Continued growth of this magnitude is unsustainable given the fiscal situation. Containing FAA's cost growth will continue to be a key issue.

FHWA also faces declining revenues in the Highway Trust Fund and continued demands for Federal aid to state and local roadway and bridge projects. FHWA should take steps to get the most bang for the buck out of its budget. If the efficiency with which the \$500 billion invested by the Federal Government and states over the last 6 years had been improved by only 1 percent, an additional \$5 billion would be available — enough to fund 4 of the 17 active major highway projects.

While FHWA has improved its stewardship of mega-projects, FHWA and the states can further enhance oversight by preparing reliable cost estimates; implementing more cost-effective engineering alternatives; managing project schedules to minimize costly delays; recovering overpayments from contractors and promptly resolving construction claims to control costs; and preparing finance plans to identify costs, schedule, funding, and risks. The Administration's reauthorization proposal incorporates many of these recommendations.

Finally, to minimize losses, FHWA and the states must continue to strengthen their efforts to prevent and detect contract and grant fraud. Examples of recent cases include an East Coast defendant who will spend more than 4 years in jail for stealing \$150,000 in FHWA Suburban Street funds, and public works inspectors who in exchange for bribes allowed contractors to submit fraudulent bills on about 30 federally funded highway contracts in one locality.

The complex task of sorting out the future of intercity rail still lies ahead, against the backdrop of the troubled Amtrak system. Amtrak ridership and revenue have increased, with record passenger revenue and ridership levels in the last 2 years. Nonetheless, the system is nearly \$5 billion in debt and needs more than \$250 million a year in Federal funding to service that debt. Cash operating losses are estimated to reach between \$700 million and \$800 million over the next 5 years. Savings alone will not make the current model work. As we testified, we should decide what we want intercity passenger rail service to be and how to produce, govern, and fund it.

MARAD must better manage its Title XI Loan-Guarantee Program. From 1998 through 2002, 9 MARAD loans have defaulted, totaling approximately \$490 million in payouts. Our recent report identified five reforms MARAD can make to better protect taxpayers' interests, including requiring security in exchange for the assumption of added risk when it waives or modifies loan criteria, and establishing an external loan-review process similar to that of the Export-Import Bank. The Department is making program changes in response to our recommendations.

This semiannual report reflects our accomplishments from October 1, 2002 through March 31, 2003. During that period, we delivered 5 congressional testimonies and issued 39 audit reports with more than \$396 million in financial recommendations. Our investigative work resulted in more than \$4.8 million in fines, civil judgments and recoveries, and 336 convictions.

I would like to thank Secretary Mineta, Deputy Secretary Jackson, and Members of Congress and their staff for their continued support. We appreciate having the opportunity to work together in advancing the Department's mission.



Kenneth M. Mead
April 2003

W O R K P L A N N E D A N D I N P R O G R E S S

The Department is facing a number of significant challenges where Office of Inspector General (OIG) audits could lead to cost savings through improved management. Cost savings are especially important in the current climate given constraints on the General Fund, the decline in Aviation and Highway Trust Fund revenues, and increased program needs reported across the Department.

During the coming year, we plan to focus on four major cost drivers facing the Department: (1) acquisitions; (2) infrastructure investments; (3) sound business practices; and (4) intercity passenger rail. We will be targeting this work to assist the Department and Congress as they consider the major Department of Transportation (DOT) programs to be reauthorized this year: the Aviation Investment and Reform Act for the 21st Century (AIR-21), the Transportation Equity Act for the 21st Century (TEA-21), and intercity passenger rail.

We will also attend to important nonbudget issues, particularly DOT efforts to reduce transportation-related deaths, injuries, and property damage, and enforce safety standards and regulations. Key safety efforts that will receive enhanced OIG oversight in the coming year include:

- National Highway Traffic Safety Administration's (NHTSA) follow-through on TREAD Act requirements to promulgate and implement regulations designed to improve reporting and follow-up on vehicle defects;
- Federal Motor Carrier Safety Administration's (FMCSA) implementation of recommendations contained in our 1999 audit report on the Motor Carrier Safety Program and analysis of FMCSA's enforcement program as required in the Motor Carrier Safety Improvement Act of 1999;
- Federal Aviation Administration's (FAA) actions to further reduce operational errors and runway incursions. In FY 2002, at least one commercial aircraft was involved in a serious runway incursion or operational error every 10 days on average.
- FAA also needs to pay close attention to its oversight of aviation repair sta-



*TRANSTAR, Houston TX, highway-monitoring facility.
Photo by Jim Olive, Stockyard*

tions. Since 1996, air carriers have significantly increased their use of outsourced maintenance at these facilities.

The specific projects we expect to complete or start in the reporting period April 1 through September 30, 2003 are highlighted below:

Aviation



- **FAA ACQUISITIONS.** Evaluate program costs and schedules for FAA's major acquisitions and identify key issues affecting their implementation.
- **AVIATION REPAIR STATIONS.** Determine if FAA: (1) ensures that repair stations have controls in place to provide adequate security for aircraft and repair facilities; (2) verifies that foreign civil-aviation authorities conducting inspections on FAA's behalf ensure that aircraft are adequately safeguarded, repairs are completed properly, and identified deficiencies are corrected; (3) monitors changes in air carriers' maintenance expenses and repair station usage to identify notable trends and effectively target FAA surveillance; and (4) ensures that maintenance at FAA-approved repair stations is performed by trained, qualified personnel and complies with approved maintenance procedures.
- **AIRPORT IMPROVEMENT PROGRAM AND PASSENGER FACILITY CHARGES.** Determine the impact of new security requirements on the availability of funding from the Airport Improvement Program (AIP) and passenger facility charges (PFC); whether capacity-enhancing projects have remained on schedule; how AIP funds and PFCs have been used to enhance capacity; and how FAA monitors the AIP and PFC programs. In the past, AIP funding has been used primarily to build runways or make other infrastructure enhancements to improve the capacity and efficiency of the air transportation system. PFC collections have provided funding for terminal expansion, noise abatement, and other projects that enhance safety, security, and competition.
- **FAA UNION MOU.** Evaluate FAA's process for negotiating, approving, and implementing agreements made outside the national collective-bargaining agreement and identify any potential cost or operational impacts of local, regional, and national memorandums of understanding (MOU).
- **ATOP.** Evaluate FAA's management of the Advanced Technologies and Oceanic Procedures (ATOP) program with respect to cost, schedule, and performance. ATOP will modernize FAA facilities that are responsible for managing large segments of airspace over the Atlantic and Pacific Oceans, significantly increasing the efficiency and capacity of international air traffic.
- **OPERATIONAL EVOLUTION PLAN.** Assess the cost and schedule data of key projects in FAA's Operational Evolution Plan and identify factors affecting implementation. The Operational Evolution Plan is a set of initiatives and milestones for expanding capacity in the air traffic control system.
- **TERMINAL MODERNIZATION.** Determine if FAA's terminal modernization strategy is

reasonable and cost-effective. We will evaluate FAA's cost and schedule projections for completing modernization, review costs incurred to date for the Standard Terminal Automation Replacement System (STARS) and Common Automated Radar Terminal System, and analyze alternatives to meet terminal modernization needs.

■ **OPERATIONAL ERRORS AND RUNWAY INCURSIONS.** Determine whether FAA is making progress in reducing operational errors and runway incursions and implemented recommendations contained in our previous reports.

■ **EN ROUTE AUTOMATION MODERNIZATION.** Review FAA's plans and progress to implement a cost-effective acquisition strategy for the En Route Automation Modernization program. We will identify key risks that may affect the program schedule and determine whether FAA has an effective plan to manage these risks.



Financial and Information Technology

■ **DELPHI.** Determine whether Delphi, the Department's replacement accounting system, is adequately secured to ensure the integrity, confidentiality, and availability of accounting for funds and reporting financial statements.

■ **DOT INFORMATION TECHNOLOGY.** Evaluate DOT's implementation of the Information Technology (IT) Capital Planning and Investment Control Process, as required by the Clinger-Cohen Act for cost-effective IT investments. This process is designed to maximize the cost-effectiveness of IT acquisitions by providing guidance for planning, selecting, controlling, and evaluating major IT investments through a project's life cycle. DOT has the third largest IT investment among civilian agencies—with a \$2.7 billion request for FY 2004.

■ **FTA COMPUTER SECURITY.** Oversee an audit of the Federal Transit Administration's (FTA) computer security and controls for its grants management and payment systems.

■ **SECURITY OF DOT'S INFORMATION SYSTEMS.** Conduct an annual evaluation of the security program for DOT's information systems, as required by the Federal Information Security Management Act.

■ **NTSB.** Determine whether the National Transportation Safety Board's (NTSB): (1) procurements were reasonable and valid; (2) internal controls for procurements were adequate; and (3) procurements complied with Federal acquisition regulations.

■ **FAA COST-ACCOUNTING SYSTEM.** Provide the status of FAA's efforts to establish a cost-accounting system and the results of specific areas as required by AIR-21.

■ **ICEMAN.** Determine the validity of Hotline complaints alleging that FAA



improperly de-obligated funds on Integrated Computing Environment Mainframe and Network (ICEMAN) contracts for data-processing services for various DOT financial systems, including the Department Accounting and Financial Information System, with authorization from contracting officials.

- **DOT FINANCIAL STATEMENTS.** Determine whether: (1) principal DOT FY 2003 financial statements and accompanying notes are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; (2) DOT has adequate internal controls over financial reporting, including safeguarding assets; (3) DOT has complied with laws and regulations that could have a direct and material effect on its financial statements or other regulations the Office of Management and Budget (OMB) requires Federal agencies to follow and the Federal Financial Management Improvement Act; (4) financial information in “Management Discussion and Analysis,” a supplemental overview of the financial statements prepared by DOT’s chief financial officer, is materially consistent with information in the principal DOT financial statements; (5) internal controls ensured the existence and completeness of reported data that supported performance measures; and (6) supplementary and stewardship information is consistent with management representations and the DOT financial statements.

- **FAA, HIGHWAY TRUST FUND, AND NTSB FINANCIAL STATEMENTS.** Oversee audits of FAA, Highway Trust Fund, and NTSB FY 2003 financial statements.



Surface and Maritime Programs

- **RAIL-HIGHWAY GRADE CROSSINGS.** Identify best practices and strategies used by states that are contributing to reductions in the number of accidents, injuries, and fatalities at rail-highway grade crossings. Evaluate DOT’s progress in implementing the recommendations in our 1999 Rail-Highway Grade Crossing Safety report. Determine the status of the Department’s safety proposals for ensuring that it meets its 2004 goal for reducing the number of grade-crossing accidents and fatalities.

- **SEATTLE CENTRAL LINK LIGHT RAIL.** In response to a request from the House Appropriations Committee, we will review the estimated cost, funding, schedule, and risks associated with the revised Seattle project and the safety issue of running buses and trains in a downtown bus tunnel. We will also assess whether a 14-mile segment can operate as a stand-alone system or if additional segments are required.

- **TREN URBANO.** Determine the reliability of the current cost and schedule estimates of the Tren Urbano Rail Transit Project in San Juan, Puerto Rico. Determine whether the Puerto Rico Highway and Transportation Authority’s (HTA) financial plan is a realistic assessment of its ability to complete the proj-



Photo courtesy of Seattle’s Central Link Light Rail Project

ect. Evaluate HTA's efforts to resolve significant, outstanding construction quality problems and its plans and procedures to begin Tren Urbano's revenue operations, including operational testing of the rail system.

■ **SLOW ORDERS AND TRACK RECLASSIFICATION.** Evaluate the Federal Railroad Administration's (FRA) oversight of railroads' use of slow orders and track reclassification and assess the impact on railroad track safety and service schedules. Railroads routinely use slow orders to reduce train speed in response to certain track defects or adverse weather conditions. Railroads can also reclassify segments of track to change maximum allowable operating speeds and corresponding maintenance requirements.



■ **SAFEStat.** Determine whether FMCSA's Safety Status Measurement System (SafeStat) reliably identifies high-risk motor carriers. Specifically, determine whether: (1) data used by SafeStat are complete, consistent, accurate, and timely; (2) the SafeStat model is valid and the scores calculated are consistent with the model's design; and (3) data quality-control systems are adequate to ensure the quality of information. SafeStat is an automated analysis system designed to measure the relative safety fitness of motor carriers based on performance data.

■ **NAFTA.** Verify that FMCSA has hired and trained staff, established inspection facilities, and developed safety processes and procedures for Mexican long-haul motor carriers, as required by the DOT FY 2002 Appropriations Act. The act directed OIG to conduct comprehensive reviews of border operations to verify whether eight safety requirements are in place.



■ **TREAD Act.** Evaluate NHTSA's progress in implementing our 2002 audit recommendations. We will examine: (1) the status of NHTSA's implementation of required rulemakings under the Transportation Recall Enhancement, Accountability, and Documentation (TREAD) Act; (2) processes established to ensure consistency in recommending and opening vehicle-defect investigations and ensuring investigation of the highest priority cases; and (3) NHTSA's progress toward ensuring its Office of Defects Investigations has put the appropriate information-system infrastructure and processes in place to promptly identify potential vehicle defects as intended by the TREAD Act.

Photo courtesy of U.S. Department of Homeland Security

- **COST-RECOVERY.** Evaluate FHWA's efforts to ensure that major surface infrastructure projects are aggressively pursuing recovery of overpayments from design contractors for change orders caused by errors and omissions.
- **FMCSA.** Assess FMCSA's progress in implementing safety recommendations contained in our 1999 audit report on the Motor Carrier Safety Program and analyze the operational results of FMCSA's enforcement program as required in the Motor Carrier Safety Improvement Act of 1999.



Photo by Focal Point

Competition and Economic Analysis

- **AIRLINE INDUSTRY METRICS.** Update OIG airline industry metrics reflecting economic and operational characteristics of U.S. airlines.
- **AIR CARRIERS' COMPENSATION PAYMENTS.** Evaluate procedures of the Office of the Secretary to implement the compensation payment provisions of the Air Transportation Safety and System Stabilization Act and the reasonableness of air carriers' claims for compensation payment.
- **AMTRAK.** Evaluate and assess Amtrak's current financial status and its 2003 operating and capital budget performance. Review Amtrak's 2004 grant request, its long-term capital needs, and its revised cost-allocation methodology.
- **PENNSYLVANIA STATION REDEVELOPMENT.** In a follow-up evaluation to our 2000 audit, determine the Pennsylvania Station Redevelopment Project's latest cost, scope, funding, and schedule. We will also assess whether Federal funds used for the project have been spent as specified in the funding legislation.

Hazardous Material, Security, Special Programs, and Department-Wide Issues

- **TRAVEL CHARGE CARDS.** Determine whether: (1) employees used DOT travel charge cards only for official Government business; (2) internal controls were adequate to provide safeguards against unauthorized use; and (3) delinquent travel credit card accounts were identified, monitored, and addressed.
- **DOT RULEMAKING.** At the request of Rep. James L. Oberstar, Ranking Minority Member of the House Transportation and Infrastructure Committee, determine how effective DOT is in managing its rulemaking process and meeting deadlines using its new system to track rulemaking.

■ **PIPELINE SAFETY.** As required by the Pipeline Safety Improvement Act of 2002, assess whether the Office of Pipeline Safety (OPS) has: (1) fulfilled pipeline safety mandates from legislation enacted in 1992 and 1996; (2) expanded research and development to improve technologies used in pipeline inspections; (3) provided specialized training to pipeline inspectors on technologies used in, and reports generated from, pipeline inspections; (4) corrected shortcomings in pipeline data collection and analysis; and (5) established timetables to implement open NTSB pipeline safety recommendations. We will identify options for OPS to consider in expediting implementation of the recommendations. With the need to protect the nation’s pipeline infrastructure, we also plan to review OPS’s involvement in the security of the pipeline system.



Photo by Jim Olive, Stockyard

A C T I V I T I E S

Ohio Highway Construction Company's Supervisor Sentenced

October 1



Edward Pannutti, a plant supervisor for Hardrives Paving & Construction, Inc., Youngstown, OH, was ordered by a U.S. District Court judge in Cleveland to pay \$18,832 in restitution and put on probation for 1 year. Pannutti mailed a number of invoices containing false information about the quality and quantity of asphalt provided for Mahoning County (OH) highway work. Between 1993 and 1999, Hardrives's owner, James Sabatine, together with foreman Christ Miner and Pannutti, prepared false weight tickets, misrepresented the quantity of asphalt supplied, and utilized a false-front minority company. They also bribed several public officials so Hardrives could win asphalt paving contracts and continue the practice of submitting fraudulent invoices for asphalt that was never applied. OIG investigated the case with the FBI and the Department of Labor OIG.

Review of Midway Airlines' Compensation Payments

October 3

Midway Airlines ceased operations in August 2001 after filing for Federal bankruptcy protection but resumed operating in December 2001 after receiving Federal compensation assistance under the Air Transportation Safety and



System Stabilization Act. This compensation was subject to a bankruptcy court order that limited its expenditure to expenses related to resuming and sustaining flight operations. Our initial review of disbursements made through December 2001 found that \$687,143 was used to pay expenses not directly related to resumption of operations and, therefore, was not allowable. After discussions with OIG, Midway agreed to return these funds to its Federal compensation account.

In a subsequent review, we found that Midway Airlines had disbursed its entire Federal compensation payments of \$12,120,995 from December

2001 through August 2002 in accordance with the terms of the bankruptcy court order.

Former FAA Inspector Guilty of Conflict of Interest

October 18

Former FAA Aviation Safety Inspector James Moore pleaded guilty in U.S. District Court in Brooklyn, NY, to conflict-of-interest charges. Moore was assigned to the New York Flight Standards Division Office in Garden City, NY, and served as FAA's principal operations inspector for Trans International Express (TIE Aviation), an airline that was seeking to upgrade its FAA operating certification from charter to scheduled carrier. While still an FAA employee, Moore negotiated employment with TIE. He then resigned and became the carrier's president. The airline is no longer operating. On December 12, Moore was fined \$250 in U.S. District Court in Brooklyn. The case was investigated by OIG and the FBI.

Aircraft-Parts Broker Jailed for 2 Years on Fraud Charges

October 18

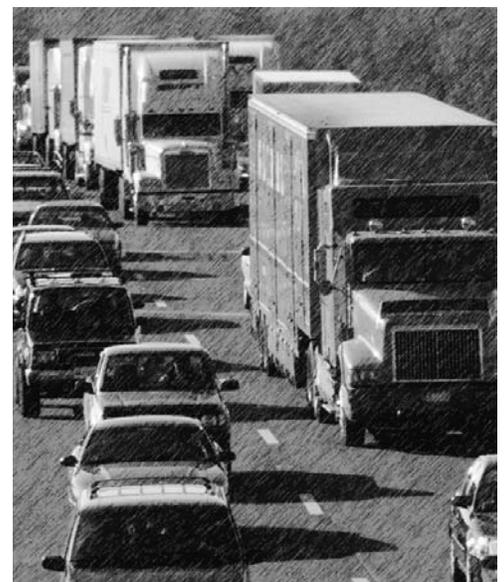
Richard Tuebner, owner of RMT & Co., an aircraft-parts brokerage firm in Cincinnati, OH, was sentenced in U.S. District Court in Dallas, TX, to 2 years in jail and ordered to pay \$5,320 in restitution and fines. Tuebner pleaded guilty to wire fraud for preparing false documents signifying the airworthiness of aircraft parts of unknown origin, which he then sold. OIG investigated this case with the assistance of FAA and the Defense Criminal Investigative Service (DCIS).

Two Sentenced in Fraudulent CDL Scheme

October 28

Felix Mamedov was sentenced in U.S. District Court in Chicago to pay \$50,000 in restitution and put on 4 months home detention for taking bribes to help approximately 100 unqualified applicants obtain commercial driver licenses (CDLs). For \$2,000 apiece, Mamedov and his partner Lech Rzdzian drove about 140 CDL applicants over a 6-month period from Chicago to Florida to obtain their licenses.

A middleman in the scheme, Peter Gregus of Miami, FL, was sentenced on January 14, 2003, in U.S. District Court in Chicago, to 5 months in prison and 5 months of home confinement. In return for bribes, Gregus helped non-English-speaking immigrants in Illinois, North Carolina, New York, Ohio, and Wisconsin cheat on their written and driving tests. The scheme also included Jose Carranza, an employee of 3S Trucking, Inc., a Florida truck-driving school and state-certified third-party testing facility. Carranza received \$400 for each applicant he illegally passed on the practical portion of the test. During testing,



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many applicants never got behind the wheel of a truck. Carranza pleaded guilty in July 2002 to accepting bribes. Many of the unqualified CDL holders were then employed by Watkins Truck Line in Illinois, another participant. This case is part of the ongoing Operation Safe Road investigation involving OIG, the FBI, IRS Criminal Investigation Division, Postal Inspection Service, and Illinois State Police.

Former Security Guard Sentenced for Misusing Official ID

October 29

Koshin Abdullahi, a Somali national residing in Everett, MA, was fined \$2,500 and placed on 6 years probation by a U.S. District Court judge in Concord, NH, after pleading guilty to misusing official identification. A former contract security guard at the Volpe National Transportation Systems Center in Cambridge, MA, of the Department's Research and Special Programs Administration (RSPA), Abdullahi failed to surrender his DOT identification when he resigned in 1999. During a routine traffic stop in May 2002, Abdullahi displayed the ID and a constable's badge to Portsmouth, NH, police and falsely indicated he was a DOT law enforcement officer.

As a result of our investigation, the Volpe Center implemented measures to prevent similar incidents from happening, including periodic computer checks to limit the number of unauthorized IDs in circulation. Examples of unauthorized IDs include expired cards or those which staffers fail to turn in when they leave employment. The new measures have enabled the center to collect 1,100 unauthorized cards. The case was investigated by OIG with assistance from local police.

Third-Party CDL Tester Sentenced in Fraud Case

November 1

James A. Schlosser of Fletcher, NC, was sentenced in U.S. District Court in Raleigh, NC, to 5 years probation and ordered to perform 150 hours of community service for falsely certifying skills test results for commercial driver licenses. Schlosser, a third-party CDL tester in North Carolina, was the final

defendant in a case that resulted in the suspension of 67 CDLs. The other two defendants, Lee Roy and Elmer Searcey, pleaded guilty in May 2000 to using Schlosser's testing certification number to administer unauthorized CDL exams. Schlosser signed the exam sheets as though he had administered the tests himself and knowing that the examinations did not meet required Federal and state test standards. OIG conducted the investigation jointly with the NC Division of Motor Vehicles and the FBI, with assistance from FMCSA.



Florida Man Jailed for Falsifying Pilot License Application

November 6

Anthony John Marcinek, Largo, FL, who was on probation for drug offenses, was fined \$3,000 and ordered to serve 8 months in jail by a U.S. District Court judge in Tampa, FL, after pleading guilty to lying to the FAA about his application for a pilot license. Marcinek falsely stated on his application form that he had no criminal convictions, even though he had been convicted of a felony drug offense.

Former Uncertified Airline Mechanic Sentenced

November 8

Michaele S. Durgini of Everett, WA, was sentenced to 10 months in prison and 3 years of supervised release by a U.S. District Court judge in Seattle after previously pleading guilty. He was charged with making false statements to the FAA by presenting a false FAA airframe and powerplant mechanic certificate when he applied for employment with Continental Airlines, and with inspecting and repairing aircraft and signing maintenance logs even though he was not certified to do so. Durgini's fraud was uncovered when he was found using the identification number of another Continental employee in aircraft maintenance logs. Continental Airlines employed Durgini from 1992 to 2000. OIG was assisted in this investigation by FAA.

Construction Company Owners Plead Guilty to Cheating Employees Out of Overtime Pay

November 12

Paul and Bonnie Tendrup, owners of Tenson Construction, Inc., pleaded guilty in U.S. District Court in Minneapolis, MN, to conspiracy charges for cheating their employees out of at least \$160,000 in overtime pay on Federal-aid contracts. Minnesota-based Tenson Construction specializes in asphalt and concrete highway construction and has Federal-aid highway contracts in Iowa, Minnesota, Texas, and Wisconsin. An audit of seven Tenson contracts by the

OIG Comments on DOT's Study of Orbitz

Since the late 1990s, consumers have increasingly turned to the World Wide Web to purchase airline tickets from on-line travel services or directly from the airlines. Between 2000 and 2001, airline ticket sales over the Web increased 46 percent, and in 2002, about 15 percent of airline tickets were sold over the Web.

In November 1999, four of the largest U.S. airlines announced their intent to jointly launch an on-line airline ticket-reservation service, which they named "Orbitz." Consumer groups, Congress, Government agencies, and industry stakeholders voiced concerns about the possible antitrust and anticompetitive issues associated with this collaborative effort among competitors.



CONCERNS ABOUT ORBITZ

One primary concern was the most-favored clause (MFN) contained in the contracts Orbitz entered into with "charter associate" airlines. Charter associates are Orbitz owners and other airlines that entered into a contractual relationship with Orbitz related to booking-fee rebates and access to certain fares.

The MFN clause entitled Orbitz to receive any fare made available on a charter associate airline's Web site. It also required charter associate airlines to provide Orbitz with any fares they made available to Orbitz's on-line competitors, as long as Orbitz was able to match the terms offered by the competing agency. In other words, the MFN clause allows charter associate airlines to give the same fares it gives Orbitz to other distribution outlets. However, it restricts airlines from giving Orbitz's competitors better fares without giving Orbitz a chance to match the terms. Opponents warned the MFN clause had resulted in Orbitz's airline owners and charter associates engaging in monopolistic or anticompetitive behavior.

Opponents also argued that the airlines would begin acting in an anti-competitive manner by not sharing their fares with distribution outlets other than Orbitz.

A final issue involved Orbitz's commitment to neutrally display all airfares, regardless of whether or not an airline had an ownership interest or had signed a charter associate agreement. There were concerns that Orbitz's airline owners would skew displays to give preferential display to their own fares.

OIG FINDINGS

Because of these concerns, Congress instructed the Department to study Orbitz and required OIG to evaluate the Department's findings. In our review issued December 13, 2002, we generally agreed with the Department's finding that Orbitz's operations have been consistent with its plans and that Orbitz has adhered to its business model.

The Department concluded, and we concurred, that Orbitz has not deviated from its commitment to provide an unbiased display of airfares and services, regardless of whether an airline is a charter associate or has invested in Orbitz.

Further, we found no substantive evidence that Orbitz was engaged in monopolistic or anticompetitive behavior to dominate the on-line travel industry. For Orbitz to exercise market power in this way, it must first accumulate a dominant market share, which it has not done. Although Orbitz is a significant player in the on-line travel industry, its market share for air sales lagged behind Expedia and Travelocity.

We also found that Orbitz outperformed its competitors in finding or matching lowest fares. In most tests where Orbitz offered a significantly better fare than its competitors, it was not because of the MFN clause. Nevertheless, Orbitz's consumer ticketing fees diminished most of the advantages that resulted when Orbitz found or matched the lowest fare.

A final concern involved whether Orbitz's airline owners and charter associates were acting in an anti-competitive manner by refusing to provide their lowest fares to Orbitz's competitors. Because of an open inves-

tigation at the Department of Justice, DOT did not draw conclusions about this issue. The Department did raise concerns, however, that Orbitz's MFN clause could discourage selective discounting and other direct-marketing initiatives through various distribution channels.

Our review found the Orbitz airline owners were distributing their lowest fares through a variety of distribution channels. We also found that all three top on-line travel agencies had access to at least some of the airlines' weekend Web fares, although the degree of access varied significantly. Finally, we found that Orbitz's airline owners and charter associates are increasingly providing their lowest fares to competitors.

The screenshot shows the Orbitz website interface. At the top is the Orbitz logo and a navigation menu with links for home, flights, hotels, cars, cruises, vacations, deals, and customer care. Below the navigation is a search form for flights, with fields for 'from', 'to', 'leave', and 'return' dates, and a section for selecting travelers (adult, senior, youth, child). A prominent banner for 'Summer in Europe SALE' features 'ROUNDTRIP FARES FROM \$523*' and a 'PURCHASE BY JUNE 18' deadline. To the right of the search form is a 'flight deals' section listing various offers like 'East Coast and Florida' for \$113 and 'Europe Summer Sale' for \$523. Below that is an 'other travel deals' section with offers like 'Air/Hotel/Car Deals with NEAT E-Packs' for \$5AVE. On the far right, there are sections for 'see deals for...' (listing Florida, Caribbean, Europe, Hawaii, Mexico, Las Vegas, California, United Kingdom, Ski travel, Gay travel, Last minute, Disney) and 'Customer Care Available 24x7' with a 'Travel Watch' alert.

We advised the Department of its ongoing responsibility to monitor all airlines to ensure they are not engaging in unfair competition and recommended that it continue to observe how the airlines use all distribution outlets, including Orbitz, to distribute their services. ■

A C T I V I T I E S

Minnesota Department of Transportation (MNDOT) determined the firm had failed to pay its employees the required prevailing wages. A subsequent OIG investigation found the Tendrups converted their employees' overtime to regular work hours. A sentencing date has not been scheduled. The case was a joint investigation of OIG, the FBI, and MNDOT.

Georgia Man Sentenced in NHTSA Crash-Car Scam

November 13

Anastios Hatzopoulos of Carrollton, GA, was fined \$6,339 and ordered to forfeit 32 vehicles by a State Superior Court judge of Carroll County, GA, after pleading guilty to 18 counts of altering vehicle titles and theft by deception so he could sell NHTSA crash cars to unsuspecting victims. The cars, used in NHTSA endurance and safety tests, are eventually sold at General Services Administration (GSA) auctions but cannot be titled for highway use. Hatzopoulos purchased them at auction, repaired and retitled them to conceal their condition and history, and then sold them over the World Wide Web. The Carrollton Police Department auctioned the vehicles in April 2003 and the victims will receive reimbursement in the near future. OIG conducted the investigation jointly with the Carrollton Police Department and GSA OIG.



Hatzopoulos purchased and repaired NHTSA crash cars, and sold them to unsuspecting victims. Photo courtesy of NHTSA

FAA's Oversight of National Airspace System Implementation Support Contract

November 15

Our audit found serious inadequacies in FAA's oversight of the National Airspace System Implementation Support Contract (NISC) because FAA did not acquire services efficiently or control costs. NISC is a cost-reimbursable contract that provides management, engineering, environmental, and automation support services on National Airspace System projects to FAA's Airway Facilities line of business and other organizations. We found that: (1) of \$97

million in obligated funds, about \$10 million was not needed to fund current task orders; and (2) 22 percent of the contractor personnel reviewed did not meet specifications for education and experience. These workers charged approximately \$4.5 million for about 98,000 hours of work.

We recommended that FAA adhere to principles of contract oversight and administration, make more effective use of audits by the Defense Contract Audit Agency, and hold its managers accountable. The agency should also implement performance-based service contracting to reduce costs, improve performance, and increase accountability. FAA reprogrammed \$5 million from NISC to meet other agency priorities and stated that it redistributed funding on remaining NISC task orders to make better use of the funds.

IG Testifies Before Congress on Computer Security

November 19

The Inspector General testified on the Department's computer security challenges before the House Government Reform Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations. He told the panel that notwithstanding recent progress, DOT still has a long way to go to adequately secure its computer systems. In particular, DOT needs to:

- appoint a Chief Information Officer with the authority to provide Department-wide leadership and enforce compliance with security guidelines;
- secure network entry points so its computer systems are less vulnerable;
- do sufficient analyses to determine the cause of computer security incidents—whether from deliberate intrusion or innocent acts (the Department did not report three of 10 major Web defacements);
- improve Web security and privacy protection;
- perform background checks on contractors' employees;
- double the number of annual security-certification reviews to help identify vulnerabilities in all mission-critical systems and determine the costs to fix security weaknesses.

Audit Recommends Stronger Oversight on Springfield, VA, Interchange Project

November 22

Our review of the Springfield, VA, Interchange Project found that project cost estimates have grown by \$435.5 million from \$241 million in June 1994 to at least \$676.5 million in June 2002 — an increase of 180 percent. We also found that construction problems have increased costs and could delay project completion, and funding to pay for cost increases has come at the expense of



*DOT still has a long way to go to secure its computer systems, IG tells Congress.
Photo by Focal Point*

A C T I V I T I E S



Cost estimates for the Springfield, VA, Interchange Project have increased 180 percent in 8 years.

other state-highway projects. We made six recommendations to improve planning, cost estimating, project management, and oversight. FHWA agreed to implement all six recommendations. The Virginia Department of Transportation (VDOT) also agreed with the recommendations and committed to work with FHWA to implement them. VDOT prepared a financial plan for the project and FHWA approved it in January 2003. FHWA officials reported they are developing cost-estimating guidelines for projects costing less than \$1 billion, as recommended in our audit report.

Convicted Felon Pleads Guilty to Mail Fraud in New Charge Involving Aviation Parts

November 25

Bo Baker of Dallas, TX, pleaded guilty in U.S. District Court in Dallas to mail fraud for organizing a bogus investment scheme involving nonexistent aircraft parts in which she tricked people into investing over \$1 million. She used a significant portion of the illegal gains to finance her lifestyle while she was awaiting sentencing from an earlier fraud conviction involving counterfeit aircraft parts. That conviction resulted in a 56-month prison sentence and an order to pay \$198,268 in restitution in January 2002. At the time, Baker was president and owner of 3D Industries in Dallas, a now-defunct FAA-certificated repair station. Baker could receive up to 5 additional years in jail on the mail-fraud charge. She will be sentenced in April.

Trucking Company Fined \$100,000 for Improper Shipment of Hazardous Military Decoys

November 25

Quick Transportation, Inc., a trucking company operating out of Michigan City, IN, and Stockton, CA, was fined \$100,000 and put on 36 months probation by a U.S. District Court judge in Sacramento for unlawfully transporting compressed-nitrogen military decoy flares. The flares can become dangerous projectiles under extreme heat or pressure and are required by law to be

shipped under constant surveillance. Although Quick received a bill of lading identifying the shipment as hazardous and specifying the need for surveillance, the company created new paperwork that deliberately omitted the reference to the hazardous nature of the shipment. Quick then trucked the shipment to an intermediary firm, which delivered the container to Union Pacific Railroad for transport to California. The flares were discovered when the train derailed near Lodi, CA, in January 1998. The decoys did not explode. OIG investigated the case jointly with the Naval Criminal Investigative Service, the FBI, FRA, FMCSA, and RSPA.

Company Owner Fined for Shipping Improperly Labeled HazMat November 26

Raviv Aizen, owner of Maryland Core, Inc., a company in Baltimore, MD, that recycles late-model automobile parts, was fined \$3,000 by a U.S. District Court judge in Baltimore for shipping automobile airbag modules via ground freight without properly labeling them as hazardous material. The modules contain cylinders of compressed gas capable of discharging with explosive force. Aizen admitted he did not label the contents to avoid paying higher shipping costs. From 1996 through June 1998, Aizen shipped approximately 40 airbags each month and saved about \$20 per shipment or a total of about \$24,000 by not properly declaring the shipments.

Missouri Trucking Company Fined \$25,000 for Hours-of-Service Violations

December 5

Affton Trucking Company, Inc., St. Louis, MO, which transports hazardous materials in interstate commerce, agreed to pay a \$25,000 fine after pleading guilty in U.S. District Court in St. Louis for failure to keep proper drivers' records. Affton violated the hours-of-service limits by instructing its drivers to falsify and alter their daily logs in order to hide the violations. This was a joint investigation by OIG, the FBI, and FMCSA.

Former Plant Manager Sentenced for False Claims About Aircraft Control Cable

December 5

David M. Waddell of Conroe, TX, was sentenced in U.S. District Court in Syracuse, NY, to 1 year probation, including 6 months of home confinement, after he pleaded guilty to making false claims to the Department of Defense and NASA about aircraft control cable. Waddell is a former plant manager for Strandflex Company, Oriskany, NY, a division of Maryland



Afton instructed its drivers to falsify their logs.

Airline Industry Metrics

During the reporting period, we issued the second and third updates to our airline industry metrics — on October 7, 2002 and January 7, 2003, respectively. We originally developed the metrics to help decision makers monitor the financial problems in the aviation industry as a result of the 9–11 terrorist attacks and the continuing weakness in industry demand that began in the first quarter of 2001 and has persisted since.

The reports contain past, present, and future indicators of domestic air-service levels and the general state of the airline industry in four broad categories: (1) air-service demand and capacity; (2) air-system performance; (3) airline finances; and (4) air service at small airports. For example, the January report gives a snapshot of the phenomenal growth in regional jet flights, which increased 80 percent (from 88,474 to 159,662) for the 2 years ending December 2002. The metrics are based on data obtained from the Bureau of Transportation Statistics, FAA, and the Air Transport Association.

While both reports provide charts and graphs in the same broad categories, the January report offers 30 indices (six more than the October report), including four new measures of air service at small airports. Examples of the charts are shown here. ■

Figure 6: Percent Change in Scheduled Flights and Available Seats at the 30 Largest Airports 12/00 vs. 12/02 (FAA Data)*

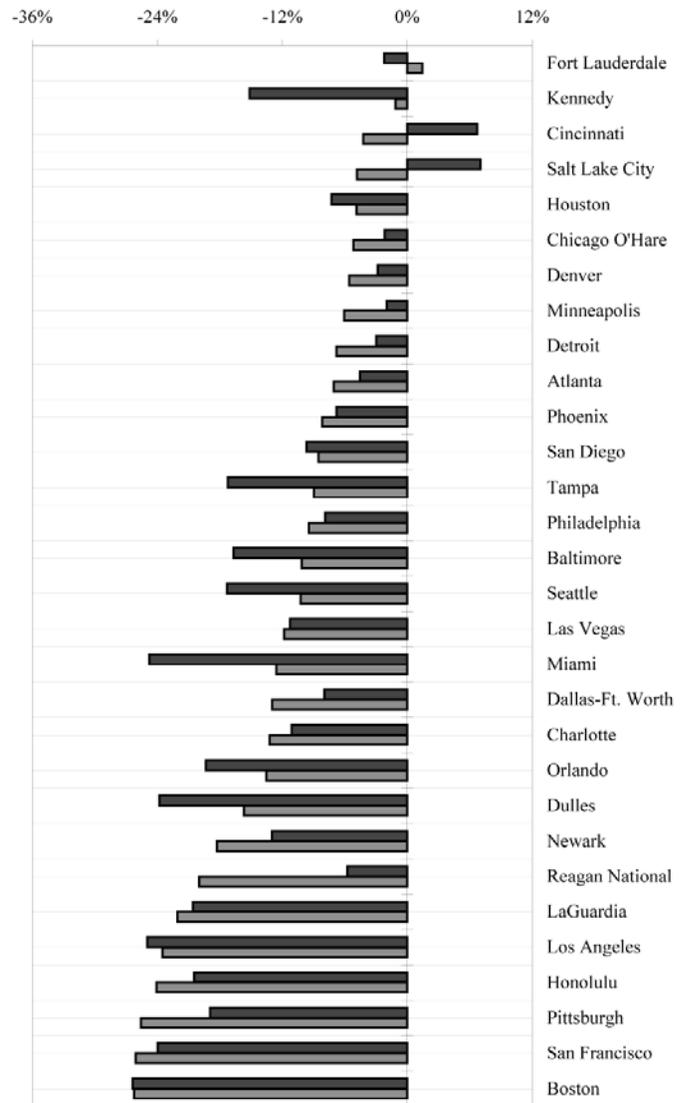


Figure 9: Percent Change in Number of Scheduled Flights by Type of Aircraft 12/00 vs. 12/02 (FAA Data)

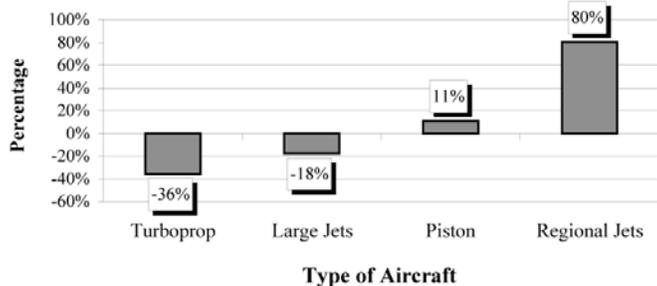
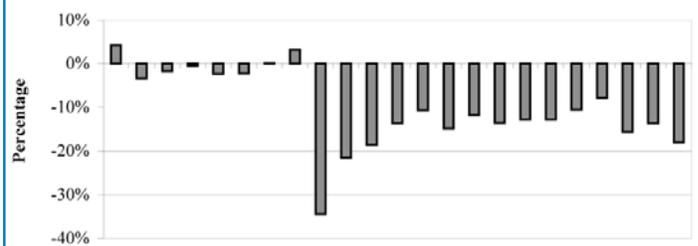


Figure 1: Percent Change in Revenue Passenger Enplanements from 2000 (ATA Data)



Olympic and Equilon Pipeline Companies to Pay Estimated \$112 Million to Settle Fatal 1999 Pipeline-Rupture Case

In the largest criminal and civil settlement ever obtained in a pipeline rupture case, two companies agreed on December 11, 2002, to pay a combined \$112 million in fines and penalties. Olympic Pipeline Company and Equilon Pipeline Company, which owned it at the time, were charged with the rupture of a petroleum pipeline and subsequent explosion in Bellingham, WA, on June 10, 1999. Two 10-year-old boys and an 18-year-old man were killed, and the waters, shorelines, and other natural resources of nearby Hannah and Whatcom Creeks were extensively damaged.



Whatcom Creek's shore on fire after the explosion.

Olympic Pipeline pleaded guilty to the charges and agreed to pay \$11 million to resolve criminal charges and pending civil proceedings arising from the rupture. Equilon pleaded no content to the charges and agreed to pay a \$15 million criminal fine and \$10 million civil penalty.

The charges, the first ever brought under the Hazardous Liquid Pipeline Safety Act, included three criminal counts: (1) running the pipeline without training its staff how to properly operate it, as required by law; (2) causing 236,000 gallons of gasoline to be spilled into nearby creeks by ignoring a warning that the pipeline had ruptured; and (3) discharging gasoline into navigable water without a permit.

As part of the settlement, Olympic and Shell Pipeline Company (Equilon's current owner) agreed to inspect and improve pipelines throughout the United States through remedial programs estimated to cost more than \$75 million. The firms also each agreed to a 5-year corporate probation. The U.S. District Court in Seattle, WA, also accepted guilty pleas from Frank Hopf, Jr., Woodlands, TX, a former Olympic manager; Ronald D. Brentson, Kent, WA, former supervisor of product movement; and Kevin S. Dyvig, Buckley, WA, the operations controller responsible for monitoring and controlling the movement of petroleum products through the pipeline. They are scheduled to be sentenced in June. The case was investigated by OIG and EPA, with assistance from the FBI and state and local officials. ■



Aftermath of the explosion at Whatcom Creek.

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Specialty Wire. In 2001, a U.S. District Court judge in Syracuse ordered Strandflex to pay a criminal fine of \$500,000 and \$100,000 in restitution for manufacturing aircraft cable and falsely certifying that it met the U.S. military specifications for manufacture and testing. The company also agreed to pay \$1 million to settle a civil complaint. OIGs from DoD, NASA, and DOT investigated the case.

NTSB's Financial Management Practices and Internal Controls

December 11

Our review of the National Transportation Safety Board's (NTSB) financial management practices and internal controls noted the board had made progress since April 2001. At that time, we testified that poor internal controls existed in NTSB's Rapidraft Payment System and two employees embezzled about \$94,000 using the "Rapidraft" checks, which employees could use to support NTSB daily operations and accident investigations. Based on our recommendations, NTSB abolished Rapidrafts and began implementing use of Government credit cards. NTSB also implemented our recommendations to outsource travel-claim examinations and payments to the U.S. Treasury and to enter into an agreement with the Department of Interior to use a fully integrated financial system. Our current review found several "internal-control" weaknesses, which NTSB has acted to correct.

Progress on FAA's Local Area Augmentation System

December 16

Our audit on FAA's progress in developing and deploying the Local Area Augmentation System (LAAS) found that with respect to cost, schedule, and benefits, LAAS is not the same program as that envisioned 3 years ago. Important questions also remain about how to certify the safety of the system for pilots. LAAS is a precision approach-and-landing system that relies on the Global Positioning System to broadcast highly accurate information to aircraft on the final phases of flight. It is expected to enhance airport capacity

by increasing the number of aircraft that can land under all weather conditions and provide for more flexible approaches to airports.

We recommended that FAA: (1) ensure the appropriate mix of skills to manage LAAS and help determine the best approach for certifying it as safe; (2) withhold funds for locations beyond the six systems planned until a process has been established for certifying LAAS as safe and at least one system has been certified; (3) revise the cost, schedule, and benefits and provide a clear understanding of where LAAS will be deployed and when services will be available; and (4) initiate quarterly reporting to Congress. FAA immediately took action in response to some of our concerns and promised to address the others.



Corporate Officer Fined \$330,000 in Date-Rape Drug Case

December 17

Michael P. Starks, chief executive officer of Chemlab in Little Rock, AR, was fined over \$330,000 and sentenced to 18 months in jail by a U.S. District Court judge in Little Rock for conspiring to illegally sell and distribute kits for making the "date-rape drug," gamma hydroxybutyrate (GHB). Starks and unnamed co-conspirators assembled the kits and arranged to deliver them by air in interstate commerce without proper labeling that the packages contained hazardous materials. Stark also used Chemlab's Web site to sell the kits in the United States and several foreign countries. OIG conducted this investigation jointly with the Food and Drug Administration, with assistance from FAA.

Two Oklahoma Firms and Two Officials Fined \$448,000 for Using Unapproved Parts in Aircraft Repairs

December 17

Thunderbird Propellers, Inc. (TPI) and Thunderbird Accessories, Inc. (TAI), both of Bethany, OK, were sentenced in U.S. District Court in Sherman, TX, for using counterfeit and unapproved parts in repairs of aircraft propellers and an aircraft turbo charger and then falsifying the certificates of repairs. A twin-prop private aircraft fitted with one of the propellers crashed in 1994, resulting in a fatality. An investigation by the National Transportation Safety Board found factors associated with the crash included fatigue failure of the propeller blade, improper propeller maintenance, and a



An unapproved starter generator used to repair aircraft.

A C T I V I T I E S

material defect in the blade clamp screws. TPI was fined \$350,000 and ordered to pay \$23,670 in restitution for using counterfeit and unapproved parts on 18 propeller repairs. TAI was ordered to pay a \$73,189 fine and \$1,695 in restitution for using unapproved parts in the turbo charger repair. Both firms were also placed on 5 years probation. The companies have filed for bankruptcy.

In a related case, TAI President Paul D. Finefrock and Chief Inspector and Repairman Marvin D. Thurman each agreed to pay \$100,000 in March 2002 to settle a civil suit for their role in falsifying aviation-repair certificates. Finefrock also agreed to lifetime forfeiture of his FAA certificate. The case of Johnnie L. Henry, a former TAI repairman, is scheduled for civil trial in April. Henry is being sued for making false claims against the Government by allegedly falsifying a work order and airworthiness tag on aircraft parts purchased during an undercover operation. The investigation was conducted jointly by OIG and the FBI, with assistance from FAA.

Former Assistant Aviation Director and Wife Plead Guilty in Miami Airport Corruption Case

December 20

Ricardo Mendez, former assistant aviation director for the Miami-Dade County Aviation Department, and his wife, Mirta Mendez, pleaded guilty to corruption in awarding contracts for work at Miami International Airport (MIA). Ricardo Mendez's plea covered 34 counts of bribery, money laundering, tax evasion, and false tax returns in connection with letting contracts to clean contaminated soil at the airport and service orders to provide computer simulations of MIA facilities. Mirta Mendez pleaded guilty to conspiracy to commit bribery. An engineering contractor and a graphics contractor pleaded guilty last year to paying the Mendezes over \$226,000 in bribes in 1997 and 1998 to win work at MIA. The Mendezes face possible fines totaling over \$1 million and imprisonment. Sentencing is scheduled for late April. The investigation was conducted jointly by OIG, IRS, and the Miami-Dade Police Department.



Ex-MIA chief pleads guilty to selling contracts for cash

MENDEZ FROM IN help from his wife — pocketed \$340,000 in cash and other payments from contractors he helped hire.

The bribes stem from two no-bid contracts that had been

'It's a sad day when a public official feels it is his right to take from the public.'

THOMAS MULVHILL
Federal prosecutor

Sources said a major motivation for Richard Mendez's plea to all 34 counts was that the government dropped most of the charges against his wife.

In public corruption cases, prosecutors typically seek to turn convictions into new cases against bigger targets. At the airport's point man for billions of dollars of spending,

federal probation sentence.

The other cash came from business people hired with Richard Mendez's help to clean contaminated soil at the airport.

One of them, businessman Edwin Perkinson, admitted paying Mendez \$85,500 in cash and checks for a piece of the deal. Perkinson, like Parker, has pleaded guilty, and he is serving a year in prison.

Other money, prosecutors say, came from Pios & Sons Enterprises and its founder, Hector P. Ortiz, who has long known the Mendez family. Pios & Sons was hired as the soil cleaning subcontractor with help from Mendez, even though the company had never done such work before.

The indictment spells out more than \$72,000 in checks that went from Pios to the Mendezes. In court, Mulvihill

Airport expansion chief admits to taking huge bribes

Former executive pleads guilty to selling contracts for cash, cheating IRS

BY BONNIE GREENE AND LARRY LEBOWITZ
green@miherald.com

FAA's Acquisition of the Integrated Terminal Weather System

December 23

The Integrated Terminal Weather System (ITWS) provides a 20-minute forecast of weather conditions in the terminal area and is intended to help air traffic managers make safe, efficient air-traffic decisions during bad weather. We found that ITWS production costs were three times higher than expected, increasing from \$360,000 to \$1.1 million per system. In addition, FAA planned to extend the deployment schedule through June 2008, nearly 5 years later than initially scheduled, and to defer adding several planned system enhancements, including a 60-minute weather forecast.

We recommended that FAA: (1) revise the deployment strategy, as appropriate, to deploy ITWS to sites that can achieve the greatest potential benefits as soon as possible; (2) integrate a 60-minute weather forecast product with ITWS to sites that achieve the greatest potential benefits before FY 2006; and (3) update the ITWS cost and schedule baseline to reflect the new deployment strategy and plans to integrate a 60-minute weather forecast product. FAA concurred with our recommendations.

2003

Ten Contract Workers for Sikorsky Aircraft Arrested for Concealing Disqualifying Backgrounds

January 8

Ten contract employees for Sikorsky Aircraft Corporation in Stratford, CT, which manufactures helicopters for the U.S. Coast Guard, were arrested for lying about their criminal history, identity, or immigration status on their background applications. Because Sikorsky is a Federal contractor with access to classified information, its employees must complete background applications. The employees worked for one of four Sikorsky contractors that provide a variety of services, including maintenance. Each had an electronic “key” card giving them access to the facility. Sikorsky manufactures and supplies replacement parts for the Coast Guard’s H-60 Jayhawk helicopter, used in search-and-rescue operations and offshore law enforcement and drug interdiction. This ongoing investigation is being conducted by OIG and the Defense Criminal Investigative Service, with assistance from the Social Security Administration OIG and the Immigration and Naturalization Service (INS).



*Coast Guard H-60 Jayhawk helicopter.
Photo courtesy of the U.S. Coast Guard*

A C T I V I T I E S

Dallas Man Fined and Jailed for Using Fake Aircraft Mechanic Certificate

January 8



McGee made repairs to DC-8 aircraft he was not qualified to do.

Emmett McGee of Dallas, TX, was ordered by a U.S. District Court judge in Dallas to pay \$15,000 in restitution for making false statements regarding his fraudulent use of an FAA airman certificate. By passing himself off as an airframe-and-powerplant (A&P) certificate holder, McGee tricked Air Transport International into hiring him as a mechanic for their DC-8 aircraft. He subsequently made entries in DC-8 log-books for the aircraft repairs he performed, thereby creating fraudulent logs since he was not a certified A&P mechanic. McGee will be jailed for 4 months and serve another 4 months in a halfway house. OIG investigated this case jointly with the FBI.

Shutdown of TASC's Transportation Computer Center

January 9

Our audit of a Hotline complaint found the Department's Transportation Administrative Service Center (TASC) spent about \$1.4 million to purchase computer hardware and software licenses after all DOT customers quit using its Transportation Computer Center (TCC). Instead of returning the leased computers to the vendor, TASC unilaterally decided to buy the equipment in anticipation of new business that never materialized. This decision resulted in a waste of \$1.4 million in DOT funds. TASC then inappropriately billed that amount to customers as part of TCC closeout costs.

Based on our findings, TASC was ordered to dispose of the TCC computers, which it did by donating them to the FBI. In response to our audit recommendations, the Secretary abolished TASC as a separate entity because the reported incident illustrated broader structural problems. DOT is conducting a thorough review of all ongoing TASC business, assessing internal administrative requirements, and making reforms that will require using more business-like principles, establishing a rigorous cost-accounting system, and obtaining annual independent financial audits.

HazMat Trucking Dispatcher Sentenced for Lying About a Fatality Investigation

January 9

Elik Burshstein, a dispatcher and maintenance worker for Petroleum Asset Management Corporation (PAMC) of West Islip, NY, was sentenced in U.S. District Court in Brooklyn, NY, for making false statements concerning the inspection status of a hazardous-material tanker truck involved in a fatality. Burshstein was fined \$3,000 and placed on 3 years probation, including 6 months of home confinement. In September 2000, the PAMC truck was involved in a collision in Central Islip, Long Island, NY, in which a 62-year-old woman was killed. During the ensuing investigation, the company presented three forged inspection certificates for the tanker to FMCSA. Burshstein falsely told OIG agents that in 1999 he had sent the truck to an inspection company.



Pilot Sentenced for Fraudulent Airman Medical Certificates

January 10

Oley D. Gerhardt of Fort Lauderdale, FL, was sentenced in U.S. District Court in Fort Lauderdale for falsifying personal information and a Social Security number on his FAA airman medical certificates. He was sentenced to 6 months in jail and fined \$1,000. Gerhardt was arrested in September 2001 at the Fort Lauderdale-Hollywood International Airport following a passenger's complaint that he overheard Gerhardt and another passenger making suspicious comments regarding the September 11 tragedy. Following his arrest, agents discovered that Gerhardt had a fraudulent pilot license and medical certificates.

Trucker Who Caused Two Deaths Jailed for Falsifying Hours-of-Service Logs

January 11

Ivan W. Jones of Montevallo, AL, was sentenced to up to 23 months in jail, depending on his behavior, and 200 hours of community service after being found guilty of involuntary manslaughter in a truck accident by the Lehigh County Court of Common Pleas in Allentown, PA. Jones had been driving more than 14 hours at the time of the accident — far in excess of the legal limit — but falsified his hours-of-service logs to reflect otherwise. The case involved a September 1999 four-truck crash in which Jones, who was driving for Continental Express Inc., of Oklahoma, slammed into the back of a dump truck. The impact caused the dump truck to jump a concrete barrier into oncoming traffic where it collided with a tractor-trailer, killing both drivers. OIG and the Pennsylvania State Police investigated the case.

Top DOT Management Challenges

On January 21, 2003, we issued our report of the top management challenges facing the Department in FY 2004. Each challenge is briefly described following.

1. Accomplishing DOT's core missions of safety and mobility during and after an effective transition of TSA and Coast Guard.

Renew focus on challenges central to DOT's core missions of improving transportation safety and mobility; establish an effective framework for working with the transportation industry and the Department of Homeland Security (DHS) on regulatory and programmatic security issues; and continue progress in major DOT management initiatives, including the development of effective financial and cost-accounting systems that will enable the Department to better track and manage its performance budget.



Photo by Focal Point

2. Reducing fatalities and injuries on our highways, emphasizing seat-belt law enforcement.

Increasing seat-belt use by strengthening and enforcing seat-belt laws is the greatest challenge in reducing deaths and injuries on our highways. Other safety priorities include improving the credibility and integrity of the commercial driver license program and continuing to implement the TREAD Act to proactively identify vehicle defects.

3. Reducing the risk of aviation accidents due to operational errors and runway incursions.

FAA needs to further reduce the number of near collisions in the air (operational errors) and on the ground (runway incursions) through training of air traffic controllers and pilots and use of technology to warn of potential incidents.

4. Reversing FAA's spiraling operating costs, improving aviation system capacity, and reauthorizing AIR-21.

In 1996, Congress acted to make FAA a performance-based organization by giving the agency two powerful tools—personnel reform and acquisition reform. Congress also directed FAA to develop an effective cost-accounting system.

More than 6 years later, FAA continues to experience acquisition schedule slips and cost overruns (five major FAA acquisitions out of the 20 we monitor experienced more than \$3 billion in cost growth); has increased workforce costs (FAA's operating costs, which are primarily payroll, have increased \$3 billion, or 65 percent, since FY 1996); and despite spending \$38

million, FAA still does not have a cost-accounting system that covers the agency and provides managers with accurate cost data by location. FAA also needs to plan now to address future capacity issues before demand for travel rebounds and needs to achieve a balance in the use of Airport Improvement Program grants and passenger facility charges for airport security and capacity projects.

5. Clamping down on fraud, obtaining better value in highway and bridge investments, and reauthorizing TEA-21.

Refocus FHWA oversight to ensure major projects are delivered approximately on-time and on-budget; promote efforts to prevent, detect, and prosecute fraud in Federal-aid highway programs with emphasis on known problem areas such as the disadvantaged business enterprise program.

6. Determining the future of intercity passenger rail.

Congress, the Administration, Amtrak, and state and local stakeholders need to decide upon a sustainable intercity passenger rail system, determine Amtrak's role and responsibilities within that system, and develop a credible funding plan that invites Federal and state government participation.



Photo by Ernest H. Roble

7. Ensuring highway safety as the southern border is opened to Mexican motor carriers under NAFTA.

Reevaluate overall resource requirements for inspections at the U.S.-Mexico border as long-haul traffic materializes; monitor the safety performance of Mexican motor carriers and drivers; and place commercial vehicles out of service in any state when operating without U.S. authority.

8. Strengthening computer security and investment controls for DOT's multibillion-dollar information-technology investment.

DOT needs to strengthen computer security and information-technology investment controls on a Department-wide basis. This must be done with a view toward cost-effective system acquisitions and reducing system vulnerabilities to cyberattacks. A chief information officer should be empowered to strengthen security and capital planning Department-wide.

9. Continuing to improve transportation security.

To solidify progress made thus far, and until TSA transfers to DHS, DOT must continue to take the lead for the Government's increased aviation security responsibilities, including completing deployment of explosives-detection equipment to the remaining airports; train and effectively manage airport security personnel; implement rigorous cost controls for security spending; and strengthen security in transit, rail, motor carrier, and ships.

10. Meeting Coast Guard's safety and security missions.

Find the correct balance between the newly elevated security mission, the search-and-rescue mission, and other traditional core missions; stabilize requirements for the Deepwater System procurement; and develop a realistic and affordable capital investment plan. ■

A C T I V I T I E S

Report Released Regarding FAA's Alleged Harassment of College Aviation Director

January 13



Findings verify that FAA contributed to crash, Blunt says



Report: Harassment of pilot linked to 6 deaths

Inspector general says supervisors should be disciplined.

"This case ... involved allegations of power," U.S. Sen. Roy Blunt said Monday at a news conference with Grace Brinell, widow of former Col. 6 aviation director Joseph Brinell (above).

House Majority Whip Roy Blunt released an OIG report concerning the alleged harassment of Joseph Brinell by officials of FAA's Kansas City Flight Standards District Office (FSDO). On December 9, 1999, Brinell, director of aviation for the College of the Ozarks, perished along with five others when the plane he was flying crashed. We found that between March and December 1999, FSDO's general aviation supervisor and a principal operations inspector took three enforcement-related actions against Brinell, each of which could have resulted in revocation of Brinell's certification or pilot license. We found these actions were unwarranted and FSDO's justification lacked credibility. We recommended that FAA consider appropriate disciplinary and other administrative action against the FSDO supervisor and operations inspector. In a previous report, we identified a number of troubling irregularities with FAA's internal investigation, which prompted us to reinvestigate the matter.

Implementing the Aviation and Transportation Security Act

January 14



Photo courtesy of the U.S. Department of Homeland Security

At the request of Representative James L. Oberstar, Ranking Minority Member of the House Transportation and Infrastructure Committee, we reported on TSA's progress in implementing two provisions of the Aviation and Transportation Security Act. Section 106 requires screening or inspecting all people, vehicles, and other equipment, goods, and property before they enter a secure area of the airport. Section 138 requires an employment investigation, including a criminal-history check, of anyone who has regularly escorted access to aircraft or a secure area of the airport. We found TSA is taking steps to implement the two sections, but recommended that the agency: (1) issue security requirements

for airport vendors and tenants; (2) implement identified countermeasures to strengthen airport-perimeter access security, including identifying costs and sources of funding; and (3) issue a rule requiring background investigations and criminal-history checks for all individuals who have regularly escorted access to secure areas of the airport. TSA agreed that further corrective actions were necessary.

FAA's Oversight of Workers' Compensation Claims in Air Traffic Services

January 17

We evaluated FAA's oversight of the workers' compensation program within Air Traffic Services to ensure cases are properly managed to prevent unnecessary costs. In FY 2002, Air Traffic Services incurred approximately \$1.7 million in operating costs to pay the salaries of employees who were temporarily out of work on traumatic injury claims. That amount represents a 39 percent increase over the past 4 years as compared to FAA's total workers' compensation program costs, which increased by less than 5 percent during the same period.

During the evaluation, we found indications of potential fraud and abuse involving stress-related, traumatic-injury claims. However, we were unable to determine whether these cases indicate systemic problems, since Air Traffic Services does not require its facilities to track information on the claims. We recommended that Air Traffic Services require facility managers to track data associated with traumatic-injury claims in order to identify trends indicating problem areas or potential fraud. In traumatic-injury cases, claimants who experience a physical or stress-induced injury from a traumatic event can receive up to 45 days off with pay to recuperate.

Amtrak's Loan Condition 7

January 17

We issued our final report to Secretary Mineta, FRA Administrator Allan Rutter, and the House and Senate Appropriations Committees regarding Amtrak's compliance with condition 7 of its Railroad Rehabilitation and Improvement Financing loan. The Department approved the loan in June 2002. Loan condition 7 requires Amtrak to identify the current value of its physical assets, which the railroad could use to collateralize future short-term funding, and clarify the extent to which they are encumbered. Amtrak was also required to submit a plan to obtain an updated "arms-length" valuation of all assets. We found Amtrak satisfied the requirements of condition 7. This report contains propriety information and was not publicly released.



Photo by Focal Point

A C T I V I T I E S

OIG Investigation Prompts IndyGo Review, Uncovering \$2.9 Million in Overcharges on FTA Grants

January 17

As a result of an ongoing investigation, an FTA review revealed that the Indianapolis Public Transportation System (IndyGo) charged \$2,993,912 to three FTA grants for expenses that were not allowed. Action is being taken to recover the debt. The review was prompted by an OIG investigation into various contract irregularities at IndyGo. These irregularities included several no-bid contracts given to insiders, awarding no-bid contracts to companies in which IndyGo's contracting employees held stock, and altering the identity of some contracts in order to improperly bill them to Federal grants. OIG also uncovered an instance where IndyGo steered \$15,000 in subcontract work to Greater Transportation Enterprise (GTE), Indianapolis, IN, to deter GTE from taking legal action for not winning an IndyGo prime contract. The uncovering of irregularities by OIG investigators eventually prompted FTA to review IndyGo's grant activities since 1999.

Letter on Drug-Control Obligations

January 21

We issued a letter to the Office of National Drug Control regarding our review of the U.S. Coast Guard's "Report of Fiscal Year 2002 Drug Control Obligations, Drug Control Methodology and Assertions." We found the report conformed to the policy circular of the Office of National Drug Control and that management's assertions were properly presented.

Flight-School Owner Jailed for 44 Months for Wide-Ranging Fraud

January 23

Ahmed Abdulla Elashmouny, owner and president of S&A Aviation, Inc., doing business as Delta Aviation Flight Academy in Farmingdale, NY, was sentenced in U.S. District Court, Central Islip, NY, to 44 months in jail



One of Elashmouny's planes.

and \$26,056 in restitution. In July 2002, Elashmouny, an Egyptian national, pleaded guilty to falsely representing himself on FAA forms as a flight instructor certified to do instrument training and a U.S. citizen. He also pleaded guilty to wire fraud on an insurance claim for a plane that crashed prior to being insured and to access-device fraud for unauthorized use of credit card account numbers to obtain aircraft equipment, aviation fuel, and computer products. The case was investigated by OIG and the FBI, with assistance from FAA.

Aircraft Parts Inspector Sentenced for False Certifications on Repairs

January 24

Carlos L. Marchini, former general manager and chief inspector for Marchini Instruments, Inc., Miami, FL, was sentenced in U.S. District Court in Miami to 10 months in prison and restitution of \$12,852 for falsely certifying the airworthiness of unapproved aircraft parts. These falsifications allowed the parts to be used aboard military and civilian aircraft. Some of the parts traced to the military had been installed on military aircraft and had to be removed. The company's FAA license to repair and certify aircraft instruments was suspended in April 2001 when FAA learned Marchini was issuing airworthiness certificates for parts not on FAA's approved list. OIG and DCIS investigated the case.



An unapproved yaw damper coupler seized by OIG special agents in their investigation of Carlos Marchini.

Georgia Man Gets 7 Years and \$187,000 Fine for Insurance Fraud Involving Illegal Airman Medical Certificate

January 27

Rodney H. Williams of Thompson, GA, who fraudulently obtained an FAA airman medical certificate to further an insurance fraud scheme, was sentenced to 86 months in jail and \$187,092 in fines and restitution by a U.S. District Court judge in Norfolk, VA. Williams staged fictitious auto accidents and then filed false insurance claims. He also claimed he was a commercial pilot in order to receive additional compensation for alleged lost wages when he filed the automobile insurance claims. Williams was convicted in August 2002 on 12 counts of wire fraud, two counts of identity theft, and one count of false use of a Social Security number. OIG worked with the FBI on the investigation.

DOT Consolidated Financial Statements

January 27

For the third time in 4 years, the Department received a “clean” or unqual-

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ified audit opinion on its FY 2002 Consolidated Financial Statements, which included \$84 billion in assets, \$42 billion in liabilities, and \$63 billion in operating costs provided by American taxpayers. Despite the clean audit opinion, the report identifies significant financial issues that illustrate the need for the Department to fully implement automated systems and internal controls to avoid the extraordinary efforts required every year to prepare its financial statements. The report also identifies “material internal-control weaknesses” in FTA’s financial management, the Department’s information security, FAA’s oversight of cost-reimbursable contracts, and Transportation Security Administration (TSA) security screening contracts and financial management, as well as several other reportable conditions and instances of nonconformity with laws and regulations. The Department’s chief financial officer agreed with the report.

KPMG LLP audited TSA’s and FAA’s financial statements under contract to us. The weaknesses highlighted, while serious, did not affect the clean audit opinion. KPMG made 18 recommendations to TSA and 14 to FAA for corrective actions. We agreed with the recommendations, and both agencies are working to take correction actions.

Illegal Foreign National Sentenced for Falsifying Airman Medical Applications

January 28

Hossein Salehi of Daytona Beach, FL, was sentenced in U.S. District Court in Orlando, FL, to 2 years probation and fined \$400 for falsely claiming U.S. citizenship and failing to disclose a past DUI charge on three airman medical applications. Salehi was a student enrolled in a pilot-training program at Embry-Riddle Aeronautical University in Daytona Beach, FL. He was taken into INS custody and is being detained pending the results of a deportation proceeding to Iran.

Three Jailed, Fined in Follow-Up to Largest Substandard Construction Case in DOT History

January 31

In a follow-up to the largest contract-fraud case in DOT history involving substandard construction products, three officials of Caldwell Construction Company, Greenville, MS, were ordered jailed and fined in U.S. District Court in Baton Rouge, LA. The men ordered the substitution of inferior polymer-coated steel pipe as drainage culverts on federally funded highway-construction projects in Louisiana from 1992 through 1997. Sentences ranged from 51 months in prison and a \$125,000 fine for the company's former president to \$60,000 fines and 27–30 months in jail for two vice-presidents. A former employee of Inland Steel Company, Chicago, was sentenced to 2 years probation for covering up the felony. In January 2001, a \$30 million civil settlement was reached with Ispat-Inland (successor company to Inland Steel) and Contech Construction Products, Inc. (successor to Caldwell Culvert). OIG conducted this investigation with the FBI and the U.S. Attorney's Office in Baton Rouge.

CDL Revoked in Connection with I-95 Bus Crash

February 3

Darol W. Britt of Gray's Creek, NC, was prohibited by a Georgia Superior Court judge in Camden County from driving commercial motor vehicles for 10 years in the State of Georgia and ordered to pay a \$1,000 fine and serve 10 years on probation. Britt pleaded no contest to reckless driving and causing serious injury when the charter bus he was driving was involved in an accident on I-95 in Georgia in April 2001. All 46 passengers were injured, including 12 school children. FMCSA is coordinating with state authorities to revoke Britt's national commercial driver license for 10 years. The investigation was conducted jointly by OIG and the Georgia State Patrol, with assistance from FMCSA.



Photo courtesy U.S. Dept. of Transportation

Operation Safe Road Nets Another Conviction

February 4

Maria de los Santos, in the U.S. illegally from Mexico, pleaded guilty in U.S. District Court in Chicago, IL, to identification fraud in a scheme uncovered during the Operation Safe Road investigation of irregularities in the issuance of commercial driver licenses in Illinois. De los Santos admitted to earning \$100,000 from 1999 through 2001 by helping illegal residents obtain false identifications. While working at the now-defunct New Delhi Driving School, she sold fraudulent Social Security cards and Mexican birth certificates to illegal residents. The illegal residents were then able to obtain valid Illinois dri-

Testimony on FAA Cost Controls

As Congress began its deliberations to reauthorize the Federal Aviation Administration (FAA), the Inspector General testified recently regarding the urgent need for the agency to control its costs and function more like a business.

In hearings before the Senate Commerce, Science, and Transportation Committee (February 11), the House Transportation and Infrastructure Aviation Subcommittee (February 12), and the Senate and House Transportation-Treasury Appropriations Subcommittee (April 2 and 8, respectively), the Inspector General reported that the extent of FAA's cost growth over the past 4 to 5 years is no longer sustainable given the financial state of the airline industry and multibillion-dollar declines in projected Aviation Trust Fund receipts. The sharp decline in Trust Fund revenues as a result of the slow economy and decline in air travel will have significant implications for FAA's operating budget and could mean FAA has much less to

fund its operations than in years past.

FAA needs to focus its cost-control efforts on two areas: operations and acquisitions.

OPERATIONS

FAA's operations budget has increased 65 percent from \$4.6 billion in FY 1996 to \$7.6 billion in FY 2004, with payroll making up the largest portion. For FY 2004, approximately \$5.6 billion, or 74 percent, of FAA's operating costs are payroll costs. From 1998, when FAA began implementing new pay systems, its salaries have increased 41 percent, compared with a 30 percent increase for the entire Federal workforce in Washington, DC.

While linking pay and performance is a key tenet of personnel reform, only about 36 percent of all FAA employees receive pay increases based on performance due to the way various pay systems were negotiated and established.

We also found between 1,000 and 1,500 sidebar agreements or memorandums of understanding (MOU) with air traffic controllers outside the national collective-bargaining agreement. Many of these serve legitimate purposes, but some can add millions of dollars to personnel costs. We found that controls over MOU are inadequate. FAA management does not know

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Mead: Airline Finances Top Major Industry Issues

DOT Inspector General Kenneth Mead last week predicted business travelers will continue to look for low-fare alternatives to full business fares for the next three or four years, and that with network carriers facing an "unsustainable cost structure" the airline industry will need some intensive self-help to remedy its financial travails.

Mead in a briefing with reporters said business traffic, which began its decline late in 2001, will not likely spring back, but in about five or six years, business travelers may again be willing to pay more pricey tariffs. Mead noted he sees no improvement in

the exact number or nature of these agreements, there are no established procedures for approving MOU, and their impact on the budget has not been analyzed. It is important for FAA to get a handle on this process because many MOU involve issues pertaining to deploying new equipment.

FAA is now working to identify those MOU which are problematic or costly and is corresponding with the National Air Traffic Controllers Association to reopen several agreements. FAA also issued new procedures for MOU, which include limiting approval authority and requiring that the human resources and budget divisions review proposed MOU before management signs them.

ACQUISITIONS

In acquisitions, FAA needs to focus its efforts on three areas: (1) controlling cost growth and schedule slips; (2) effectively managing and controlling costs with modernization projects that are just getting started; and (3) strengthening contract oversight.

For example, five major acquisitions that OIG tracks have cost growth totaling more than \$3 billion, the equivalent to an entire year's budget for FAA's modernization account. There have been schedule slips of 3 to 5 years in the same five projects.

Problems with cost growth, schedule slips, and performance shortfalls have serious consequences. They result in costly interim systems, a reduction in units procured, postponed safety and efficiency benefits, or crowding out other projects.

FAA cannot afford multibillion-dollar cost growth in its major acquisitions because there are billion-dollar projects just getting started that have potential for cost growth. For example, the En Route Automation Modernization program, with an estimated cost of \$2.1 billion, will replace aging computer hardware and soft-

ware for FAA facilities that manage high-altitude air traffic. This is a high-risk effort because of its size, complexity, and the fact that it involves over 1 million lines of software code.

FAA needs to strengthen contract oversight because it has not followed sound business practices when administering contracts. We have consistently found a lack of basic contract administration at every stage of FAA's contract management, from contract award to contract closeout.

COST ACCOUNTING AND LABOR DISTRIBUTION

Finally, to effectively control costs FAA also needs accurate cost-accounting and labor-distribution systems. In 1996, at the direction of Congress, FAA began developing its cost-accounting system. After nearly 7 years of development and over \$38 million, FAA still does not have an adequate cost-accounting system, and it expects to spend at least another \$7 million to deploy the system agency-wide. FAA also needs an

accurate labor-distribution system to track the costs and productivity of its workforce. Questions about the extent that FAA's overtime costs have been driven by staffing levels cannot credibly be answered until it has an accurate labor-distribution system.



The Inspector General noted that FAA has made progress with some acquisitions, such as Free Flight Phase 1, FAA's project to increase the capacity and efficiency of the National Airspace System. At the direction of the FAA Administrator and Deputy Administrator, the agency has also begun to strengthen contract oversight. ■

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ver's licenses by using the bogus documents. Operation Safe Road is an ongoing investigation involving OIG, the FBI, Postal Inspection Service, IRS, and the Illinois State Police.

IG Testifies Regarding TSA's Aviation Security Costs Before Senate Commerce Aviation Subcommittee

February 5

In testimony before the Senate Commerce, Science, and Transportation Aviation Subcommittee, the Inspector General said TSA has made noteworthy accomplishments in meeting its deadlines for federalizing the airport screener workforce and screening of all checked baggage. However, controlling costs must be a priority for TSA, he testified. A key cost-control issue is effective contract oversight and managing human resources. TSA also needs to capitalize on economies of scale as it moves into the Department of Homeland Security. He testified that aviation security is not an end-state, noting that upwards of \$3 billion is needed to integrate explosives-detection devices into baggage-handling systems at the largest airports, and there will be an ongoing need to deploy better and more effective equipment to meet threats. He urged caution before adding more air-travel fees or taxes, saying the General Fund is the most likely option for meeting TSA's financial requirements above security fees.

Baltimore Man and Woman Plead Guilty to Production of Fake IDs, Racketeering

February 5

A Baltimore, MD, man and woman pleaded guilty in U.S. District Court in Baltimore to producing fake identification documents and mail-racketeering conspiracy. Mellarie L. Chisholm, an employee of the Maryland Motor Vehicle Administration (MVA), pleaded guilty on February 5, and Mohan Thapa, an interpreter for MVA, pleaded guilty on January 16. In exchange for bribes, Chisholm conspired with Thapa to sell and distribute fraudulent IDs to foreign nationals, and she received bribes from him to pass unqualified applicants on

tests for commercial driver licenses. Chisholm is scheduled to be sentenced on April 24. Thapa’s sentencing date has not been set. This was a joint investigation of OIG, the FBI, and INS.

Texan Jailed for Flying Without a Pilot License

February 11

Cornie G. Lowe was ordered by a U.S District Court judge in Del Rio, TX, to pay a \$5,000 fine and spend 6 months in jail for piloting a plane without a license and lying to the FAA. Lowe flew as pilot-in-command from Del Rio to Ruidoso, NM, in May 2002, even though FAA revoked his pilot license in December 2001. He also made false entries in airman logbooks as though he were a certified flight instructor and signed biennial flight reviews of other pilots when he was not authorized to do so. Lowe co-owns Fontera Aviation, Inc., an aircraft fuel business at Del Rio International Airport in Texas. OIG conducted the investigation with assistance from FAA.

Defendants in Airport-Baggage Theft Case Plead Guilty

February 11 and 25

Two ramp agents at Miami International Airport pleaded guilty in U.S. District Court in Miami to charges of using their airport security badges to steal items from the luggage of British Airways passengers. Javier Munoz pleaded guilty on February 11 and Onelio Vento on February 25. Both were employed with Aircraft Services International, which contracted with British Airways to load and unload passengers’ luggage and belongings. They are two of six defendants arrested by OIG, U.S. Customs Service, and Miami-Dade Police Department on December 11, 2002.

The other four defendants are Jorge A. Benitez, Jose Leon, Pierre A. Bourdeau, and Maynor Hernandez, all of whom have pleaded guilty. They are scheduled for sentencing on April 11. Vento is scheduled for sentencing on April 30, and the others will be sentenced on April 11. OIG conducted the investigation with the Miami-Dade Police Department, U.S. Customs Service, and British Airways.



Surveillance camera catches defendants in the act of stealing from British Airways passengers’ luggage.

Ohio Man Jailed for Using False Identity to Obtain a CDL

February 13

Reubin R. Pete was sentenced to a year in jail and fined \$500 by a U.S. District Court judge in Cincinnati, OH, after pleading guilty on October 24, 2002, to making false statements to FMCSA concerning commercial driver

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licenses (CDLs). Pete, who has never held a valid CDL and is unqualified to drive a tractor-trailer, assumed the identity of a truck driver licensed in North Carolina. He then obtained a CDL in Ohio and began driving tractor-trailers in interstate commerce for Transcontinental Systems, Inc. In the process, he falsified documents related to CDLs, driver logs, drug testing, and employment applications.

Former Trucking Employee Sentenced in HazMat Case **February 19**

Randa Michelson, a former employee of Mid-America Express, Inc., Chatsworth, GA, was sentenced in U. S. District Court in Minneapolis, MN, after earlier pleading guilty to participating in a conspiracy to transport undeclared hazardous materials by truck. The chemicals, which should have been labeled as hazardous, included hydrogen peroxide and sodium hydroxide, which can cause skin burns and irritation to the respiratory tract. Michelson was sentenced to 3 years probation and 150 hours of community service. She was charged in Biloxi, MS, in 2001 with co-defendant Jack Weaver. She then moved to Minnesota and was allowed to enter her guilty plea there. Weaver was fined \$1,000 in 2002. OIG conducted the investigation jointly with the FBI and the Environmental Protection Agency (EPA).

Construction Company Owner Jailed **February 20**

Brian Monczka, owner of First Choice Construction of Taylor, MI, was sentenced in U.S. District Court in Detroit, MI, to 5 months in jail and 400 hours of community service for making false statements regarding certified payroll records. The fraudulent payroll records allowed the company to increase its profits by about \$150,000 by keeping money its employees had earned. First Choice, the prime contractor on an FAA-funded noise-abatement construction project, falsely represented its employees' wages in documentation submitted to the Detroit Metropolitan Airport Authority. The investigation was conducted jointly by OIG and the FBI.

Trucker Pleads Guilty to Illegal Transport of HazMat

February 20

Robert Finley, Sr., and RTF Industries, Inc., of Marshal, TX, pleaded guilty in U.S. District Court in Texarkana, TX, to disposal of cyanide solutions and other hazardous waste without a permit. The hazardous waste was dumped at the back of a plating company and on other land Finley owned in Tyler, TX. Finley, owner of RTF Industries, manufactured pyrotechnic devices for the U.S. military and other contractors and previously operated a metal-plating facility. A facility cannot legally transport or dispose of hazardous waste unless it has a permit. The investigation was conducted jointly by OIG, EPA, and DCIS. Sentencing has not been scheduled.

Flight-School Owner Guilty of Falsifying FAA and INS Documents to Conceal Criminal Record

February 21

Eden Nacer Fetamia, president and owner of Link Aviation, Inc., a flight school in Dallas, TX, was sentenced to 3 months in jail and fined \$2,500 by a U.S. District Court judge in Dallas. Fetamia had previously pleaded guilty to making false statements to the FAA and INS to cover up his criminal record. Fetamia lied on his FAA pilot and medical applications to conceal a prior conviction for bank fraud and a conviction for driving under the influence. As a result, FAA revoked Fetamia's air-transport pilot, commercial pilot, and flight instructor certificates for 1 year. For concealing his criminal record, Fetamia faces an INS deportation hearing, which has yet to be scheduled. The investigation was conducted jointly by OIG, the FBI, and INS.

Computer Security and Controls of U.S. Coast Guard's Aircraft Repair and Supply Center

February 25

Our audit on computer security and controls at the U.S. Coast Guard's Aircraft Repair and Supply Center in Elizabeth City, NC, found the center needs to: (1) establish a disaster-recovery and business-continuity plan; (2) strengthen the security that governs access to its computer systems and the physical complex; (3) strengthen its process for controlling changes to production systems; and (4) enhance security administration, including background checks on key personnel. We identified five priority actions the Coast Guard should take and provided their action plan and estimated completion dates to the OIG, Department of Homeland Security. We performed a quality-assurance review of the audit, which was conducted for us by Price-waterhouseCoopers LLP.

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Former FAA Inspector Sentenced for Theft

February 27

Harold A. Coghlan of Birmingham, AL, was sentenced in U.S. District Court in Birmingham after pleading guilty to theft for receiving \$1,897 in military leave payments based on bogus military orders. He presented the fraudulent orders to FAA in 1999 while employed as an aviation safety inspector. He was ordered to pay \$1,897 in restitution and fined \$250. As a result of Coghlan's guilty plea in October 2002, five other felony counts were dismissed against him for allegedly falsifying FAA forms to obtain ratings to fly certain types of aircraft based on his military training. Now the president and CEO of a charter cargo and small-passenger commuter service in Birmingham, Coghlan resigned from the FAA in 1999. He was required to surrender his air transport license and ratings he received on May 27, 1998. FAA is reviewing the case for possible license revocation.

TSA's Oversight of Security-Screener Contracts

February 28



Photo courtesy of U.S. Department of Homeland Security

Our audit of TSA's oversight of its security-screener contracts found that six of 13 large contractors charged TSA about \$305 million more for passenger-screening services than they had charged air carriers for similar work. TSA deployed a Federal workforce to screen passengers at all airports but had not yet negotiated final contracts with 18 of 74 contractors as of February 26, 2003, including 11 large contractors. TSA is withholding more than \$90 million in payments to contractors that had significantly increased their rates to TSA, pending completion of audits by the Defense Contract Audit Agency, and it reported contract management of the security screener program as a "material internal-control weakness" in a departmental report to Congress and OMB.

Review of TSA's Screener-Security Program

February 28

Our audit of TSA's hiring and training of its aviation screeners found the agency has made tremendous strides by hiring and training passenger and checked-baggage screeners at the nation's commercial airports. While TSA has already moved to correct several weaknesses identified during the audit, there are four areas where it still needs to take action. We recommended that TSA's next Federal Managers' Financial Integrity Act report include the lack of contract oversight for all major contracts as a "material internal-control weakness." TSA agreed to take corrective action and concurred with most of our findings and recommendations. This report contains sensitive security information and will not be publicly released.

Review of Proposed Aviation-Security Technologies

February 28

We issued the results of our review of proposed technologies to improve aviation security, a study requested by Representative Martin Sabo. We reviewed technologies for their potential to improve aviation security in the airport, aircraft, checked baggage, screening checkpoint, and cargo and mail. We focused on technologies in general, not specific products, and we recommended actions to foster the development and deployment of aviation security technologies in the near, intermediate, and long term. This report contains sensitive security information and will not be publicly released.

Review of Security at Aircraft Repair Stations

February 28

We reviewed security controls at aircraft repair stations as part of our larger audit of air carriers' use of repair stations. We recommended that TSA work with FAA, other Government organizations, and air carriers to improve security at repair stations located at commercial and general airports and off airport property. This report contains sensitive security information and will not be publicly released.

Letter to Rep. Young on DOT's Air-Carrier Citizenship-Review Process

March 4

In response to a request from Representative Don Young, Chairman of the House Transportation and Infrastructure Committee, we examined how the Department determines an air carrier's citizenship following a substantial



The Wall Street Journal, March 6, 2003

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change in ownership, management, or operations. We found the Department's informal process is not well-suited to complex, contentious, and controversial cases, such as its DHL Airways review, and suggested it allow greater transparency and public participation. We also suggested that the Department publicly articulate its criteria for determining air carriers' citizenship and publicly assess how its criteria apply to DHL Airways.

The Assistant Secretary of Transportation for Aviation and International Affairs requested public comments on our letter to Chairman Young, and all interested parties responded. Subsequently, the Department also issued an advance notice of proposed rulemaking and a request for comments on the Department's rules and process for handling air-carrier citizenship reviews. In addition, Congress passed legislation directing the Department to use an administrative law judge to resolve the formal docket regarding the DHL Airways citizenship issue.

Trinity Rail Group Fined Nearly \$1 Million in HazMat Leak Case

March 4

Trinity Rail Group/Trinity Industries, Inc., Saginaw, TX, was ordered by a U.S. District Court judge in Albany, NY, to pay \$924,062 in fines, restitution, and civil penalties for negligently releasing hazardous anhydrous ammonia from a rail car into the air in August 2000. The fumes sickened many people and stopped freight and passenger rail traffic on a major New York route for 3 days. The company, which maintains and repairs railroad cars, pleaded guilty in November 2002 to charges of improperly installing a flange plate on top of a railroad tank car, causing a gasket to fail and the hazardous vapors to leak into a rail yard and nearby residential areas in Fort Edward, NY. The case was investigated by EPA, New York State Department of Environmental Conservation, DOT OIG, and FRA.



Georgia Tester Admits Falsifying CDL Test Results

March 6

Grady D. Saffles, a commercial driver license (CDL) tester for America's Driving Force in Forest Park, GA, pleaded guilty in U.S. District Court in Atlanta to falsifying CDL test results, resulting in the licensing of 26 CDL applicants who did not take the skills portion of the test. America's Driving Force was not aware of the fraud. Saffles's sentencing is scheduled for May 28. This is part of an ongoing investigation into CDL fraud in Georgia that OIG is conducting jointly with the Georgia Department of Motor Vehicle Safety, with assistance from FMCSA.

Delaware Minister Receives 4-Year Jail Term, Ordered to Pay Back \$150,000

March 7

Rev. Lawrence Wright of Wilmington, DE, was ordered by a U.S. District Court judge in Wilmington to spend 51 months in prison and pay \$150,000 in restitution for money laundering, interstate transportation of stolen property, false statements, and conspiracy to steal and misuse state transportation funds. Wright took \$150,000 in "Suburban Street" funds authorized for the New Mount Olive Baptist Church, where he is the minister. He took about \$80,000 for personal use, kicked back about \$60,000 to State Representative Al O. Plant, from Wilmington, now deceased, who helped him win the grant, and directed the remaining \$10,000 to the church. The funds came from Delaware's Transportation Trust Fund, which receives about 40 percent of its funding from FHWA and FTA. OIG and the FBI investigated the case.

Pilot Jailed for Using Fake Commercial License

March 7

Marvin C. Jacobs, an illegal foreign national from Aruba, was sentenced in U. S. District Court in Fort Lauderdale, FL, to 1 year in jail after previously pleading guilty to using an altered FAA commercial pilot license to gain employment when he was licensed to fly only as a private pilot. Jacobs presented the fraudulent license to Reliance Aviation, which operates an air-taxi service at the Fort Lauderdale-Hollywood International Airport. Based on the bogus commercial license, the airline hired Jacobs, and he subsequently flew numerous passengers from February 2000 through August 2001 while serving as a first officer. Once Jacobs completes his sentence, he will be taken into INS custody for deportation. OIG investigated the case with assistance from the INS and FAA.

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Control tower, Key West International Airport

Air Traffic Controller with Criminal Past, Medical Condition Convicted of Making False Statements

March 12

Michael D. Douglas, formerly of Key West, FL, pleaded guilty in U.S. District Court in Jacksonville, FL, to making false statements to FAA when he falsified his application for a medical certificate, which he completed to advance his career as an air traffic controller. Douglas had worked as a contract air traffic controller for Robinson Aviation, Inc., at Key West International Airport. He was fired in July 2002 and his airman certificate revoked after an investigation revealed Douglas falsified information. He covered up his criminal history and a medical condition and also used a false birth date and Social Security number. A sentencing date has not yet been set. OIG conducted this investigation with assistance from FAA.

Inspector General Testifies on DOT FY'04 Budget Issues Before House Transportation-Treasury Appropriations Subcommittee

March 13

The Inspector General testified before the House Transportation-Treasury Appropriations Subcommittee regarding cost drivers, management challenges, and other appropriations issues for the DOT FY 2004 budget. He said the Department will be strongly challenged to accomplish its missions in an “extremely challenging” budget environment of decreased revenues from the Highway and Aviation Trust Funds, increased program needs from all modes, and the challenge to maintain safety in all modes of transportation. This is occurring against the backdrop of three major reauthorizations — the Aviation Investment and Reform Act for the 21st Century (AIR-21), the Transportation Equity Act for the 21st Century (TEA-21), and Amtrak.

DC Paving Contractor Fined \$900,000 for Bilking Federal-Aid Contracts

March 14

Paving contractor Fort Myers Construction Corporation of Washington, DC, agreed to pay \$900,000 in fines, restitution, and civil damages after pleading guilty in U.S. District Court in Washington, to conspiracy to bribe inspectors of the District of Columbia Department of Public Works. To date, this continuing OIG and FBI investigation, dubbed “Operation Hotmix,” has found three paving companies, two of their owners, and nine Public Works inspectors guilty of paying or receiving bribes in exchange for allowing contractors to bill the District for work that was never done and approving inflated job tickets for asphalt that was never provided. The scheme affected about 30 federally funded contracts. Together, the three firms had been awarded more than \$32 million in Federal aid funded by FHWA.

One of the other companies, C&F Construction Company, Landover, MD, and its president, Florentino Gregorio, were ordered in February 2002 to pay \$41,000 in restitution and the company was placed on 1 year of probation after earlier pleading guilty to bribery. Another defendant, Granja Contracting, Arlington, VA, pleaded guilty in November 2002 and was sentenced to \$40,000 and 36 months probation.

Federal Air Marshal Program

March 14

We issued our audit of TSA’s policies, procedures, and controls for operating an effective and efficient Federal Air Marshal (FAM) program, a review performed at the request of Rep. Peter DeFazio. We evaluated the selection and hiring process, training program, and scheduling of FAMs to ensure they are properly trained and fully qualified to respond to incidents aboard aircraft, and we evaluated management’s control over the program. We found TSA had made commendable progress in expanding the program and is taking steps to strengthen it. Nevertheless, we identified four areas needing immediate attention and made recommendations to TSA. TSA concurred with most of our findings and recommendations and agreed to take corrective action. This report contains sensitive security information, and TSA will determine if any portions are publicly released.

Four Sentenced in Ring to Profit from Scrapped Aircraft Parts

March 17

RTS Services, Inc., an aircraft parts broker, and Roger Sickler, a corporate officer, were sentenced in U.S. District Court in Fort Worth, TX, for their role

Household-Goods Moving Fraud

A nationwide increase in household-goods moving fraud over the past several years was dramatically illustrated March 6 when 16 moving companies and 74 individuals affiliated with the firms were indicted on Federal charges in Miami, FL. The defendants allegedly enticed victims by providing them with intentionally low estimates to move their possessions and then held the goods hostage until the customers paid exorbitant additional fees.

As of March 31, 57 individuals had been arrested in the Miami case, which is the latest in an increasing number of household-good fraud cases being investigated by Federal and state agencies, including OIG.

In an earlier investigation involving the same type of fraud, three owners of five unlicensed moving companies in the New York City area, were sentenced on October 31, 2002, in New York City Criminal Court in Queens after earlier pleading guilty. They were fined \$119,500, barred from any future involvement in the moving industry, and ordered to return all customers' property in their possession and forfeit assets to pay restitution to the victims. In another case in New York City, three defendants were indicted in U.S. District Court in Brooklyn on January 21 for their involvement in a scam involving four Brooklyn moving companies. The companies were on trial in Federal court at press time.

The Federal Motor Carrier Safety Administration (FMCSA) attributes an increase in complaints against interstate movers to the abolition of the Interstate Commerce Commission by Congress in 1995. Congress encouraged consumers to use neutral arbitration or pursue legal action against movers to protect their interests. While FMCSA is primarily a safety agency, it is charged with oversight of the interstate moving industry. It does not have the authority to settle loss and damage claims or obtain reimbursement for consumers seeking payment for specific charges.

Household-goods moving fraud was the subject of congressional hearings in 1998 and 2001 and a 2001 report by the General Accounting Office. With areas of increased activity in New York City, south Florida, and California and complaints beginning to add up in other communities, Federal agencies are stepping up their efforts to investigate moving companies engaged in fraud. Since 1998, OIG in conjunction with the FBI, FMCSA, and state and local law enforcement agencies has investigated six schemes across the country involving egregious cases of fraud against innocent consumers of household goods carriers. The cases have resulted in 16 guilty pleas by individuals who were ordered to make \$3,476,501 in restitution to defrauded consumers, serve a combined 13 years in jail, and pay fines totaling \$126,500.

Movers held goods hostage, feds charge

BY LUISA YANEZ AND JASMINE KRIPALANI
lyanez@herald.com

Hundreds of consumers were cheated by 16 South Florida moving companies that lured them with low-ball prices, then held their possessions hostage in jammed warehouses until the customers paid exorbitantly inflated prices, federal officials said Tuesday.

A massive federal indictment unveiled Tuesday accuses the companies and 74 owners, operators and employees of fraud and extortion.

The indictment said the movers deliberately underestimated the cost of moving, rushed customers to sign blank forms, lied to them, used false names, and refused to tell customers where their possessions were until they paid huge fees.

The final tab to unload the moving trucks was usually triple the estimate customers had been given when they

▶ PLEASE SEE **MOVERS, 2A**

Miami Herald, March 7, 2003.

In the most serious consumer complaints, the moving companies are involved in some variation of a common scheme that often begins with consumer searches for companies on the World Wide Web. Typically, the firm intentionally gives a "low-ball" quote over the phone without seeing the goods to be moved. These firms never put their quote in writing. Legally, a household mover cannot increase a written quote by more than 10 percent.

After the goods have been loaded on the truck and before delivery, the mover confronts the customer with substantially inflated costs. Frequently, a mover will attempt to justify the cost increases, alleging there were more goods than represented. Sometimes the mover generates an inflated weight ticket (known as "weight bumping") or adds other bogus "hidden" charges. One such example of hidden charges involved a moving company that added \$150 for every five steps they had to carry a customer's things vertically, even though they had already inflated their original cost estimate from \$1,200 to \$4,500.

If the victim objects, company representatives often become verbally abusive, hijack the property by refusing to deliver it, and even threaten to auction it if the inflated price is not paid, generally in cash. When the property is finally delivered, it is often damaged or some of the shipment is missing, and the firm refuses to reimburse the customer for their losses. Irreplaceable family heirlooms and sentimental items are often never recovered.

Often, a company that has defrauded a large number of victims and developed a bad reputation changes its name and continues to operate in the area without fear of legal repercussions.

To date, investigations of OIG, the FBI, and other Federal law enforcement agencies have resulted in charges against 31 moving companies and 93 individuals associated with those companies involved in fraud against more than 2,000 consumers. ■



Types of Household-Goods Moving Fraud

In general, OIG investigates household-goods carriers alleged to have engaged in an egregious and intentional pattern of defrauding consumers by:

- using a fraudulent bill of lading, which would include making, altering, copying, publishing, or negotiating a fraudulent bill of lading;
- deliberately providing a "low-ball" estimate to lure customers and then withholding or threatening to withhold the customers' goods unless they pay an additional, exorbitant sum; demanding significantly more than the quoted price;
- failing to observe their rate schedules or tariffs as required by regulation;
- knowingly assigning a fraudulent weight to a shipment ("weight bumping");
- obtaining money or property on false or fraudulent pretenses;
- interfering with commerce through theft, extortion, or threats or violence;
- making false statements or knowingly making or using false documents;
- violating Federal criminal law by engaging in mail and wire fraud or money laundering.

To File a Complaint

Federal Motor Carrier Safety Administration

- Call 1-888-368-7238 toll-free
- File a complaint online at <http://www.fmcsa.dot.gov/factfigs/moving.htm>
- Information on consumer rights can be found at <http://www.fmcsa.dot.gov/factsfigs/moving.htm>

FBI: To file a complaint against the companies indicted in Florida

- <http://miami.fbi.gov/movescam.htm>

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in a scheme to sell scrapped aircraft parts to FAA and U.S. Coast Guard (USCG) as FAA-approved parts for commercial and military aircraft. FAA and USCG purchased a variety of parts for use as spare parts in their aircraft maintenance inventory. Sickler was sentenced to 3 years in jail, and RTS Services was sentenced to 3 years probation, making it ineligible for government contract work for that period. Both the firm and Sickler were also ordered to pay \$250,000 in restitution to Kollsman, Inc., an avionics company in Merrimack, NH, for kickbacks RTS paid to Kollsman employee Marshall Bryant in exchange for aircraft-part repair orders. Instead of working on these parts, RTS farmed the work out and then charged highly inflated prices for the repairs, which Bryant authorized as necessary. Sickler was found guilty in September 2002 of money laundering by a jury in U.S. District Court in Fort Worth, and RTS Services was found guilty of money laundering, conspiracy, and mail fraud.

Marshall Bryant and his wife, Helen, of Merrimack, NH, were sentenced in U.S. District Court in Concord, NH, on January 16 for conspiracy to commit mail and wire fraud and accepting kickbacks from RTS. The Bryants were sentenced to 6 months of home confinement for receiving the kickbacks for inflating repair contracts for aircraft parts, some with FAA and U.S. Coast Guard. They will reappear in Federal court in April 2003 for an amended sentence, which will demand restitution for their victims, including FAA and the Coast Guard.

Investigation of FAA Whistleblower's Allegations Detailed in Letter to U.S. Office of Special Counsel

March 18

In response to a request from the Office of Special Counsel (OSC) and on behalf of the Department, we investigated allegations brought by Bogdan Dzakovic, a former member of the "Red Team," FAA's covert aviation-security-testing unit. Dzakovic alleged that officials in FAA's division of Civil Aviation Security deliberately covered up Red Team findings. Our investigation did not substantiate the allegations. While we found a former Red Team manager instructed the team to prenotify FAA Federal security managers before

testing explosive-detection system machines, we concluded that it was done for legitimate purposes, and Red Team records show a slightly higher test-failure rate after prenotification was instituted.

We did find merit to Dzakovic’s concerns regarding coordination between Red Team management and those who follow up on Red Team findings. In particular, we found programmatic weaknesses involving the reporting of Red Team findings and regarding corrective action. We also found that changes FAA made as a result of Red Team testing generally did not have the desired effect of creating sustained, improved performance by airport screening companies. We recommended that the Transportation Security Administration, which is now responsible for airport security, implement three procedures in its covert testing program. TSA indicated its new covert testing program includes these elements.

FAA’s Oversight of Airport Revenue

March 20

At a sample of five airport sponsors — those who own or operate airports — we found approximately \$40.9 million in potential revenue diversions that were not detected by FAA’s primary oversight methods. The amount was not detected because independent auditors of the airport sponsors were not sufficiently aware of relevant OMB guidance on auditing airport revenue, and airport sponsors were not adhering to FAA requirements for airport financial reporting.

Since we completed our fieldwork, the American Institute of Certified Public Accountants and FAA have taken steps to better inform independent auditors about requirements for reviewing airport revenue. These actions should improve FAA’s ability to detect and prevent airport revenue diversions. To ensure resolution of the revenue diversions that did occur, we recommended that FAA: (1) seek recovery of the \$40.9 million we identified; and (2) determine if practices that may have led to diversions have been corrected, and if not, recover any additional funds diverted since completion of our work.

Cattle Hauler Fined \$12,000 for Falsifying Driver Log Books

March 24

Bingham Livestock Transportation, Inc., Tremonton, UT, and owner and President Lorin A. Bingham were sentenced in U.S. District Court in Salt Lake City for falsifying driver log books in a case that has resulted in eight other convictions since February 2002. The cattle-hauling company was fined \$12,000 and placed on probation for 24 months, making it ineligible for government contracts. Lorin Bingham was fined \$3,000. The eight earlier convictions, all on hours-of-service violations,



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included Bingham's sons and company vice presidents and co-owners, Brad and Barton, and five drivers, two of whom were Bingham's brothers. The company has a history of hours-of-service violations that FMCSA has cited with warnings and administration fines, which Lorin Bingham has ignored. OIG and the FBI investigated the case, with assistance from FMCSA.

Pilot Found Guilty of Deceiving Social Security Administration for Benefits

March 24

David F. Slaven, Auburn, CA, was found guilty by a U.S. District Court jury in Sacramento, CA, for failing to inform the Social Security Administration that he held a current FAA Airman Medical Certificate while he was receiving benefits for a chronic illness. The Social Security Administration paid Slaven more than \$190,000 from 1988 to 2002 based on his claims that he was suffering from chronic fatigue syndrome, also known as Epstein Barr Syndrome, and could not work. Witnesses reported they saw Slaven repairing and flying his plane and making repairs to an apartment building during the benefit period. FAA has revoked Slaven's pilot license and mechanic license that gave him authority to inspect aircraft. Sentencing has not been scheduled.

MARAD's Title XI Loan-Guarantee Program

March 27

Our review of the Maritime Administration's (MARAD) Title XI Loan-Guarantee Program, conducted in response to requests from Senator John McCain and Representative Frank Wolf, found MARAD needs to conduct more effective oversight of the loan-application process, borrowers, vessels and shipyards constructed under loan guarantees, and foreclosed assets. Our report noted that in recent years, the program has experienced an increase in loan defaults and in the number of firms with loan guarantees filing for bankruptcy protection. In the last 5 years, nine loans have defaulted, totaling approximately \$490 million, and six of these have occurred since December 2001.

We also assessed the effect of the American Classic Voyages (AMCV) bankruptcy filing on MARAD's Title XI loan guarantees, noting the bankruptcy had a significant impact on the program, although it did not threaten the program's immediate solvency. AMCV's bankruptcy affected over one-quarter of the value of MARAD's Title XI loan-guarantee portfolio — \$1.3 billion out of \$4.9 billion at the time of default.

We recommended that MARAD: (1) analyze the risks presented when it modifies criteria used to approve loans and impose provisions to mitigate those risks; (2) establish processes for external, independent reviews of projects; (3) improve oversight of its borrowers' financial condition; (4) establish a process to monitor the physical condition of assets over the term of a loan guarantee; and (5) improve its return on foreclosed assets through better tracking of vessels and property constructed with loan guarantees. MARAD agreed with our recommendations.

Shipbuilding loan policy leaves taxpayers high, dry



STAFF FILE PHOTO BY SCOTT THRELKELD
In October 2001, work ceased on an American Classic Voyages Co. ship being built at taxpayer expense at Northrop Grumman Ingalls shipyard in Pascagoula, Miss. The Maritime Administration's Title XI loan program came under increased scrutiny after the October 2001 bankruptcy filing of New Orleans-based American Classic Voyages Co.

The Times-Picayune, April 1, 2003.

DOT's Energy Management and Conservation Program

March 28

We evaluated whether DOT was taking advantage of opportunities to reduce energy consumption and costs and whether reported energy data were reliable and accurate. We found DOT could further reduce energy and costs by investing in previously identified energy-conservation projects. We also identified inaccuracies in reported data. To improve its energy program, we recommended that DOT: (1) prioritize energy-saving projects and fund those which have a payback in the near term; (2) develop processes to collect accurate energy data using FY 2003 data; (3) identify documentation to be retained to support annual data reports; (4) complete energy evaluations of all buildings by January 1, 2005; and (5) disclose in the next annual report that energy data are not supported by adequate documentation. DOT concurred with our findings and recommendations and agreed to take corrective action.

Philadelphia Man Imprisoned, Fined on 13 Counts of CDL Fraud

March 28

William Nicastro of Philadelphia, PA, was sentenced by a U.S. District Court judge in Philadelphia to 1 year in prison, \$1,800 in fines, and mandatory drug and alcohol treatment after being found guilty on 13 counts of commercial driver license (CDL) fraud. The charges included making false statements to DOT, identity theft, and bank fraud. Nicastro is currently serving the remainder of a 3-year state sentence he received as a result of a joint Pennsylvania and DOT

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OIG investigation for forgery. While using the identity and CDL of one of his victims, Nicaastro kidnapped a prostitute in Philadelphia and raped her repeatedly while driving a commercial motor vehicle from Philadelphia to Baltimore. After serving the 3-year forgery sentence and the 1-year Federal sentence, Nicaastro will begin serving a 25- to 50-year sentence for the kidnapping.

October 2002 Finance Plan for the Central Artery/Tunnel Project

March 31

As directed by Congress, we reviewed the October 2002 finance plan of the Central Artery/Tunnel Project, Boston, MA, to determine if it complied with FHWA guidelines. We found the plan: (1) fairly represents the project's costs of \$14.625 billion and identifies funding sources — \$8.549 billion in Federal funds and \$6.076 billion in state funds; and (2) reflects our earlier recommendations for full disclosure, including a \$150 million increase for additional insurance costs. We identified the following issues the plan needs to disclose: (1) unresolved legal issues regarding proceeds from sale of the project's headquarters building; (2) the risk of a 6- to 9-month delay in three remaining project segments; (3) potential cost growth from construction claims and possible cost recovery from consultants; and (4) risks associated with the financial health of major construction contractors. FHWA and project officials amended the plan, and we concurred with FHWA's decision to approve it.



Photo courtesy of the Central Artery Tunnel Project, [www.Big Dig.com](http://www.BigDig.com)

OTHER ACCOMPLISHMENTS

This section extends beyond the legal reporting requirements of the Inspector General Act to highlight other accomplishments and contributions by OIG staff. We cover the impact OIG has made as we carry out our statutory responsibilities to review existing and proposed legislation and regulations; respond to congressional and departmental requests for information; and review policies for ways to provide economy, effectiveness, and efficiency or detect and prevent fraud, waste, and abuse.

Improved NHTSA Controls. As a result of an ongoing OIG investigation, NHTSA advised it would institute procedures to ensure that claims for travel expenditures and leave requests by regional administrators would be approved at the headquarters level and that an official-use warning banner would be displayed to NHTSA employees using computers in regional offices. *(October)*

STARS Oversight. Based on concerns we raised about the Standard Terminal Automation Replacement System (STARS), the modernization effort that will replace controller displays at over 160 air traffic control facilities, FAA Administrator Blakey took two significant actions to improve program management. First, she increased management oversight and took responsibility for determining when STARS should begin operating at Philadelphia International Airport, an event which subsequently took place on November 17, 2002. Second, due to our concerns about ineffective cost controls, FAA conducted an assessment of the business practices and operations of the STARS program, which resulted in more than 50 recommendations to improve program management. *(October)*

OIG in Nigeria. At the request of the Office of the Secretary of Transportation, Assistant Inspector General for Investigations Charles Lee, Jr., and two OIG staffers conducted a seminar on oversight and accountability with members of Nigeria's legislative National Assembly and ministry heads in Abuja, Nigeria, October 6–11, 2002. The National Assembly wants to establish an oversight function similar to that performed by Offices of Inspector General in the United States. We discussed the role of OIG and issues related to establishing and operating such an office, including legal authority, mission, and powers; desired qual-

ifications for the office head and staff; investigative and auditing standards; and reports of audit and investigative results. The Agency for International Development funded this project. *(October)*

Evaluating Baggage-Screening Equipment. In a letter responding to a request from Representative James L. Oberstar, Ranking Minority Member of the House Transportation and Infrastructure Committee, and signed by former TSA Administrator Adm. James M. Loy and the Inspector General, TSA agreed to develop and implement by the end of 2002 a meaningful set of test protocols to measure the performance of explosives trace-detection and explosives-detection systems in an operational airport. The protocols evaluate equipment, people, and procedures. *(December)*

TSA Contract Management. One of TSA's major contractors, NCS Pearson, Arlington, VA, recruited, assessed, and hired the nationwide airport-screener workforce and provided human-resource support for all TSA employees. From February to December 2002, the cost of this contract grew from \$104 million to an estimated \$729 million. Due to poor cost control, we suggested that TSA hire the Defense Contract Audit Agency to audit their major contracts, which it did in November to review costs submitted under the NCS Pearson contract. *(November)*

Incumbent Screeners Hired. An OIG review of personnel files at two airports disclosed that nine incumbent screeners met TSA requirements and should have been hired as Federal screeners. TSA subsequently offered screener positions to these nine. *(December)*

Applications for Airport Security Badges. We identified ways to improve the application for airport security-access badges in order to strengthen the process for reviewing applications and issuing badges at Logan International Airport in Boston. The Massachusetts Port Authority subsequently amended the badge application form to incorporate some of these changes, including clarifying the section where criminal history must be declared and enhancing warnings about penalties for falsifying information. *(December)*

Sidebar Labor Agreements at FAA. On January 9, we briefed FAA Administrator Blakey on our concerns regarding FAA's management and controls over sidebar agreements or memoranda of understanding (MOU) that are outside the national collective-bargaining agreement with air traffic controllers. We found there are between 1,000 and 1,500 MOU agency-wide. Many can have significant cost implications, but FAA does not know the exact number or nature of these agreements, there are no established procedures for approving MOU, and their cost impact on the budget has not been analyzed. Since we briefed Administrator

Blakey, FAA has begun identifying MOU that are problematic or costly and corresponding with the controllers' unions to reopen several agreements. FAA also issued new procedures for MOU, which include limiting approval authority and requiring the Human Resources and Budget divisions to review proposed MOU before they are signed by management. *(January)*

Government-Wide IT Issues. The IT Roundtable of the President's Council for Integrity and Efficiency asked IG offices that have assessed network vulnerability to share with the rest of the IG community ways to reduce the resistance of program officials to network scanning conducted by IG offices. We provided ways to design network scanning, select vendor products, and train employees. We also shared a five-step process that has proven to be successful in gaining cooperation from program officials when using automated scanning tools to assess network vulnerability. *(January)*

Highway Mega-Projects. Based on our suggestions, FHWA developed a monthly reporting system to better monitor the status of major highway projects. FHWA oversight managers of each major project are now required to provide monthly data on costs, funding, schedule, and risks, which previously were not part of FHWA's quarterly reporting system. The new system will improve FHWA's ability to oversee major projects by providing timely information on the status of all major infrastructure projects. *(January)*

TEA-21 Reauthorization Proposal. The Inspector General worked closely with the Deputy Secretary Jackson, Federal Highway Administrator Peters, and other senior officials to ensure the Department's TEA-21 reauthorization proposal addressed key OIG recommendations regarding FHWA stewardship and oversight of major highway construction projects. The DOT proposal subsequently included language to require both management and financial plans for major projects, call for states to prepare these plans for smaller projects, establish minimum cost-estimating standards, strengthen the Department's suspension and debarment policies to prevent convicted contractors from continuing to defraud the Government, and allow states to share in monetary recoveries from Federal fraud cases. *(January)*

FAA Accounting. During our ongoing review of the Department's compensation payments program to aid the airlines for incremental losses incurred as a result of the 9-11 terrorist attacks, we found problems with procedures and internal controls at FAA's Mike Monroney Aeronautical Center in Oklahoma City, OK. Two air carriers' refund checks — for \$250,000 and \$835,380 — were not cashed until January 2003. FAA concurred with our suggestions to: (1) safeguard the Department's funds from inefficient use; (2) promote accu-

racy and reliability in its accounting records; (3) guarantee compliance with Federal cash-management laws and regulations; and (4) improve operational efficiency. *(January)*

DOT's New Working-Capital Fund. As a result of our recommendations to improve management of DOT's new working-capital fund, DOT is: (1) reviewing its newly implemented Delphi accounting system and developing procedures for preparing budgets that will eliminate reporting of inappropriate unobligated amounts; (2) establishing a team to evaluate internal controls and billing practices; (3) developing a proposed plan for implementing improvements; and (4) establishing milestones and completion dates for necessary actions. *(March)*

Hacking into DOT Computers. We identified over 200 unauthorized telephone-line (dial-up) computer connections at FAA's Mike Monroney Aeronautical Center in Oklahoma City, OK, which hackers could use to gain unauthorized access to DOT networks. We also identified significant vulnerabilities on the accounting-system Web site. DOT took immediate actions to eliminate unauthorized dial-up connections and Web vulnerabilities. *(March)*

C H A R T S & T A B L E S

Summary of Performance

October 1, 2002–March 31, 2003

Reports issued	39
Recommendations issued	173
Congressional testimonies	5
Total financial recommendations	\$396,847,206
— that funds be better used	\$173,625,232
— that questioned costs*	\$223,221,974
Cases referred for prosecution	504†
Cases accepted for prosecution	491†
Indictments	409†
Fines, restitutions, civil judgments, and recoveries	\$4,872,987
Convictions	336†
Debarments and suspensions	20
Actions affecting DOT employees	22

* Includes \$4,500,000 in unsupported costs.

† Includes cases from airport security sweeps, where OIG participated with other federal agencies and state and local authorities to identify employees with illegally obtained airport security badges.

INVESTIGATIONS

Judicial and Administrative Actions

October 1, 2002–March 31, 2003

Indictments	409*
Administrative actions	
Employee	
— terminations	8
— reassignments	4
— reprimands	8
— resignations and retirements	2
Debarments and suspensions	3
Federal contract terminated	1
Licenses revoked or terminated	43
Convictions	336
Years sentenced	96
Years' probation	235
Years' supervised release	248
Hours of community service	4,356
Fines	\$1,161,251
Restitutions/civil judgments	\$1,292,464
Federal recoveries†	\$2,411,933
State recoveries†	\$7,339
TOTAL	\$4,872,987

* Includes indictments from airport security sweeps.

† "Recoveries" include fines, restitution, civil judgments or settlements, and Federal and state recoveries. Federal recoveries go to the U.S. Treasury; state recoveries are retained by the states.

During the 6-month reporting period, 120 cases were opened and 259 were closed, leaving a pending caseload of 483. Cases involving 504 institutions and people were referred for prosecution. Cases involving 491 people and institutions referred during this or prior reporting periods were accepted for prosecution, and the cases of 22 people and firms were declined. As of March 31, 2003, 30 cases were pending before prosecutors.

Profile of Pending Investigations

As of March 31, 2003

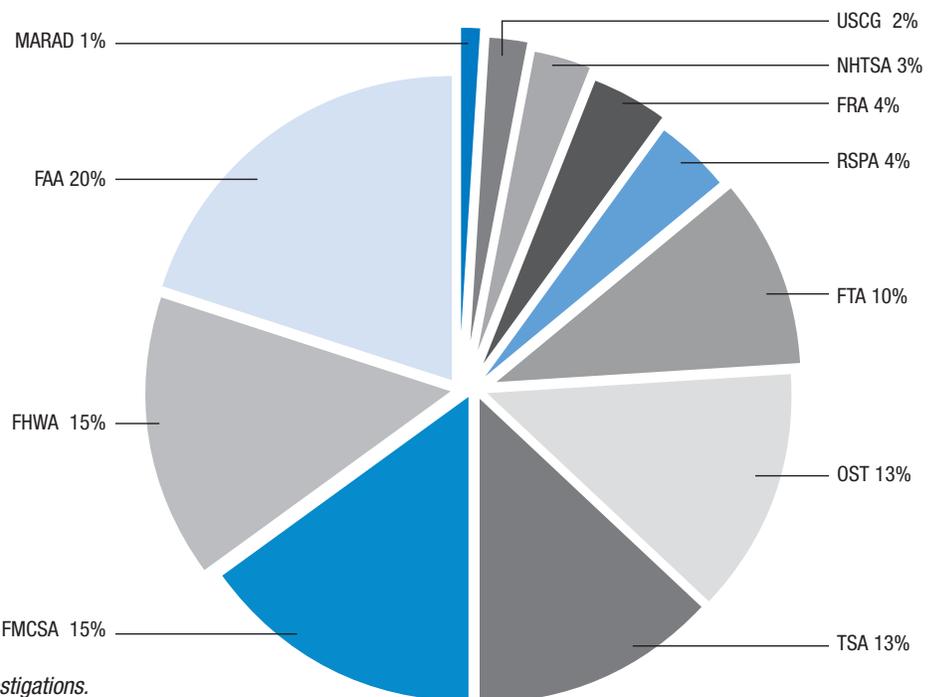
Types of Cases

	Number of Cases	Contract & Grant Fraud	Employee Integrity	Aviation Safety	Motor Carrier Safety	HazMat	Other
Operating Administration							
Bureau of Transportation Statistics	1	0	1	0	0	0	0
Federal Aviation Administration	196	25	42	103	0	14	12
Federal Highway Administration	101	90	5	0	0	0	6
Federal Railroad Administration	13	3	0	1	0	7	2
Federal Transit Administration	17	16	0	0	0	0	1
Maritime Administration	7	3	4	0	0	0	0
Federal Motor Carrier Safety Administration	87	0	0	0	60	15	12
Office of the Secretary	9	3	3	0	0	0	3
Research and Special Programs Administration	36	2	1	0	0	33	0
National Highway Traffic Safety Administration	16	1	7	0	0	0	8
TOTAL	483	143	63	104	60	69	44
Percent of Total	100%	30%	13%	22%	12%	14%	9%

Note: This table does not include cases from the Transportation Security Administration or U.S. Coast Guard. The two agencies were transferred to the Department of Homeland Security in early March 2003.

Application of Investigative Resources by Operating Administration

October 1, 2002–March 31, 2003

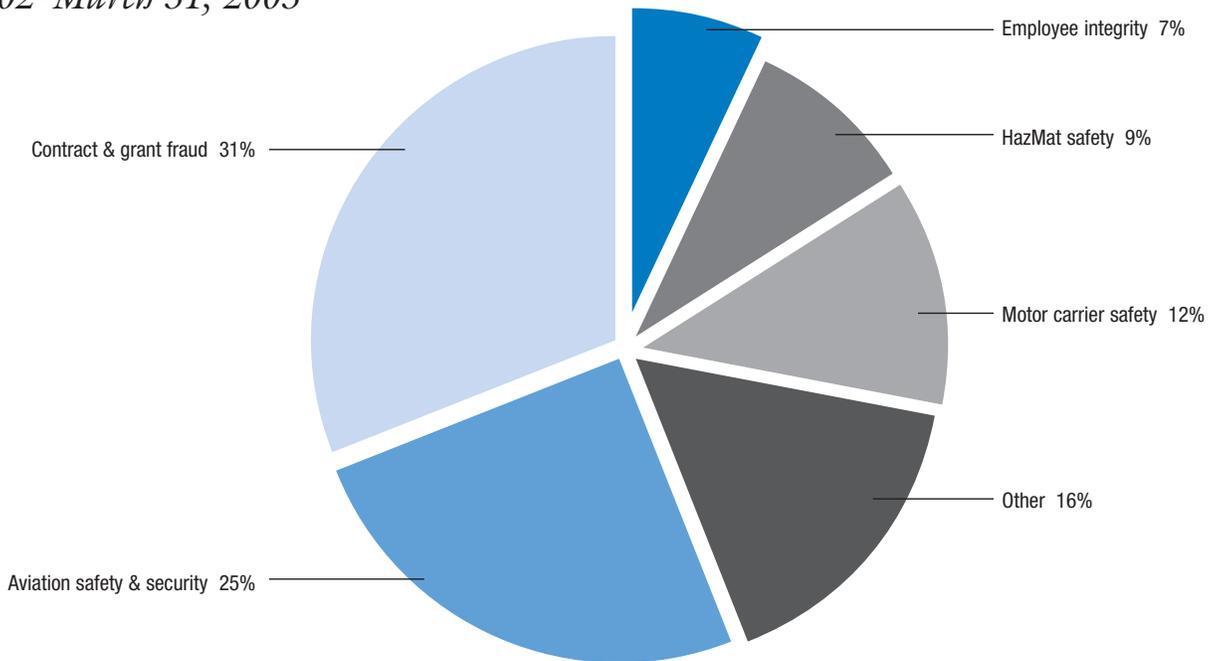


*These figures include direct labor charges applied to investigations.

Note: May not equal 100 percent due to rounding.

Application of Investigative Resources by Priority Area

October 1, 2002–March 31, 2003



Note: May not equal 100 percent due to rounding.

AUDITS

Completed OIG Reports

October 1, 2003–March 31, 2003

(Estimated Amounts*, Dollars in Thousands)

Type of Review	Number of Reports	Number of Recommendations	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
<i>Internal Audits</i>					
— Program/Functional	20	99	\$218,490	\$4,500	\$ 52,125
— Chief Financial Officer financial statements	6	39	\$0	\$0	\$121,500
<i>Other OIG Internal Reports</i>	3	21	\$0	\$0	\$0
Total Internal Audits and Reports	29	159	\$218,490	\$4,500	\$173,625
<i>Grant Audits</i>					
— Audits of grantee under Single Audit Act	10	14	\$232	\$0	\$0
Total	39	173	\$218,722	\$4,500	\$173,625

*The dollars shown are the amounts reported to management. The actual amounts may change during final resolution.

Note: Department of Transportation programs and operations are primarily carried out by the Department's personnel and recipients of Federal grants. Audits by DOT's Office of Inspector General, as a result, fall into three categories: (1) internal audits of departmental programs and operations; (2) internal reviews of departmental programs and operations; and (3) audits of grant recipients. The table shows OIG's results in the three categories.

OIG Reports with Recommendations That Questioned Costs

October 1, 2002–March 31, 2003

(Dollars in Thousands)

	Number of Reports	Number of Recommendations	Questioned Costs	Questioned Costs*
Reports				
A For which no management decision was made by the start of the reporting period	6	8	\$7,039	\$0
B Which were issued during the reporting period	7	9	\$223,222	\$4,500
Total A+B	13	17	\$230,261	\$4,500
C For which a management decision was made during the reporting period	6	9	\$225,663	\$4,500
— dollar value of disallowed costs	6	9	\$220,703	\$4,500
— dollar value of costs not disallowed†	3	4	\$5,030	\$0
D For which no management decision was made by the end of the reporting period	7	8	\$4,598	\$0

* Unsupported costs are included in the figures for questioned costs.

† Includes reports where costs were both allowed and disallowed.

OIG Reports with Recommendations That Funds Be Put to Better Use

October 1, 2002–March 31, 2003

(Dollars in Thousands)

	Number of Reports	Number of Recommendations	Funds to be Put to Better Use
Reports			
A For which no management decision was made by the start of the reporting period	3	3	\$544,100
B Which were issued during the reporting period	4	9	\$173,625
Total A+B	7	12	\$717,725
C For which a management decision was made during the reporting period	4	9	\$173,625
— dollar value of recommendations agreed to by management	4*	9*	\$173,625
— dollar value of recommendations not agreed to by management	0*	0*	\$0
D For which no management decision was made by the end of the reporting period	3	3	\$544,100

* Includes reports and recommendations where costs were both allowed and disallowed.

OIG Reports Recommending Changes for Safety, Economy, or Efficiency

October 1, 2001–March 31, 2003

	Number of Reports	Number of Recommendations
Reports		
A For which no management decision was made by the start of the reporting period	30	87*
B Which were issued during the reporting period	32	155
Total A+B	62	242
C For which a management decision was made during the reporting period	35†	168
D For which no management decision was made by the end of the reporting period	28†	74

* Adjusted from previous Semiannual Report (April 1–September 30, 2002) by a net increase of 6 recommendations.

† Includes reports where management made decisions on some but not all recommendations.

Management Decisions Regarding OIG Recommendations

October 1, 2002–March 31, 2003

(Dollars in Thousands)

Description	Number of Reports	Number of Recommendations	Questioned Costs	Unsupported Costs*	Funds to Be Put to Better Use
Unresolved as of October 1, 2002	33	98†	\$7,039	\$0	\$544,100
Audits with findings during current period	33	173	\$223,222	\$4,500	\$173,625
Total to Be Resolved	66	271	\$230,261	\$4,500	\$717,725
<i>Management Decisions:</i>					
— Audits prior period‡	14	40	\$2,673	\$0	\$0
— Audits current period‡	23	146	\$222,990	\$4,500	\$173,625
Total Resolved	37	186	\$225,663	\$4,500	\$173,625
<i>Unresolved:</i>					
— Less than 6 mos. old	11	27	\$232	\$0	\$0
— 6 mos.–1 year	4	11	\$89	\$0	\$1,600
— 1 year–18 mos.	8	22	\$32	\$0	\$494,500
— 18 mos.–2 years	4	15	\$3,911	\$0	\$0
— Over 2 years old	4	10	\$334	\$0	\$48,000
Total Unresolved as of March 31, 2003†	31	85	\$4,598	\$0	\$544,100

* Unsupported costs are also included in the figures for Questioned Costs.

† Adjusted from previous Semiannual Report (April 1–September 30, 2002) by a net increase of 6 recommendations.

‡ Includes reports and recommendations where costs were both allowed and disallowed.

Office of Inspector General Published Reports

October 1, 2002–March 31, 2003

Operating

Administration/ Type of Report	Report Number	Date Issued	Title	Focus of Report/ Recommendations
United States Coast Guard				
<i>Internal Audits: Program/Functional—2 reports</i>				
	FI-2003-022	02-25-03	Computer Security and Controls at the Aircraft Repair and Supply Center	Additional safeguards needed to ensure integrity, security, and system availability
	MH-2003-028	03-03-03	Use of Fiscal Year 2002 Funds to Improve the Operational Readiness of Small Boat Stations and Command Centers (revised 04-14-2003)	Funds spent to improve small boat stations, but cost-accounting system unable to isolate search-and-rescue expenditures
<i>Internal Audits: Chief Financial Officer Financial Statement—1 report</i>				
	FI-2003-014	01-22-03	Actuarial Estimates for Retired Pay and Medical Benefits	Reasonable and reliable methodology used to calculate liabilities and actuarial activity
Federal Aviation Administration				
<i>Internal Audits: Program/Functional—6 reports</i>				
	AV-2003-002	11-15-02	Support Contracts: Cost Controls Over the National Airspace System Implementation Support Contract Need Significant Strengthening	Put \$10,500,000 to better use; \$90,000 questioned; \$4,500,000 unsupported
	AV-2003-006	12-16-03	FAA Needs to Reset Expectations for Local Area Augmentation System Because Considerable Work Is Required Before It Can Be Deployed for Operational Use	Actions needed to restate delivery schedule, cost, procedures, and benefits
	AV-2003-009	12-20-02	Integrated Terminal Weather System: Important Decisions Must Be Made on the Deployment Strategy	Budget shortfall needs to be addressed; implementation behind schedule
	AV-2003-011	01-17-03	Workers' Compensation Traumatic Injury Claims	Better tracking of traumatic injury claims needed
	FI-2003-013	01-21-03	Terminal Service Cost-Accounting Practices	\$38,000,000 questioned
	AV-2003-030	03-20-03	Oversight of Airport Revenue	Put \$40,938,089 to better use
<i>Internal Audits: Chief Financial Officer Financial Statement—1 report</i>				
	QC-2003-017	01-27-03	Financial Statements for Fiscal Year 2002	Unqualified opinion on financial statements
<i>Grant Audits: Audits of Grantee Under Single Audit Act—1 report</i>				
	QC-2003-019	02-10-03	City of Laredo, TX	Improve grantee oversight

Office of Inspector General Published Reports *(continued)*

Operating Administration/ Type of Report	Report Number	Date Issued	Title	Focus of Report/ Recommendations
Federal Highway Administration				
<i>Internal Audits: Program/Functional—2 reports</i>				
	IN-2003-003	11-22-02	Springfield Interchange Project	Finance plan needed that has reasonable cost estimates, adequate funding, and reliable schedules
	IN-2003-039	03-31-03	October 2002 Finance Plan for the Central Artery/Tunnel Project	Finance plan needs to disclose unresolved legal issue and schedule risks
<i>Internal Audits: Chief Financial Officer Financial Statement—1 report</i>				
	FI-2003-015	01-24-03	Highway Trust Fund Financial Statements for Fiscal Years 2002 and 2001	Unqualified opinion on financial statements; put \$121,500,000 to better use
<i>Grant Audits: Audits of Grantee Under Single Audit Act—4 reports</i>				
	QC-2003-007	12-13-02	Michigan Department of Transportation	Improve grantee oversight
	QC-2003-035	03-31-03	Innovative Pavement Research Foundation	\$13,735 questioned
	QC-2003-036	03-31-03	State of New York	Improve grantee oversight
	QC-2003-037	03-31-03	City of Shoreline, King County, WA	\$39,618 questioned
Federal Transit Administration				
<i>Grant Audits: Audits of Grantee Under Single Audit Act—5 reports</i>				
	QC-2003-008	12-13-02	Port Authority of Allegheny County, PA	Improve grantee oversight
	QC-2003-020	02-12-03	Capital District Transportation Authority, Albany, NY	\$178,621 questioned
	QC-2003-033	03-31-03	Foothill Transit, Los Angeles, CA	Improve grantee oversight
	QC-2003-034	03-31-03	City of Chicago, IL	Improve grantee oversight
	QC-2003-038	03-31-03	Birmingham Regional Paratransit Consortium, AL	Improve grantee oversight
Maritime Administration				
<i>Internal Audits: Program/Functional—1 report</i>				
	CR-2003-031	03-27-03	Title XI Loan-Guarantee Program	Improve oversight and tighten loan-guarantee controls
National Transportation Safety Board				
<i>Internal Audits: Program/Functional—1 report</i>				
	FI-2003-004	12-11-02	Financial Management Practices and Internal Controls	Management attention needed to correct budgetary, payment, receipts, and internal-control weaknesses

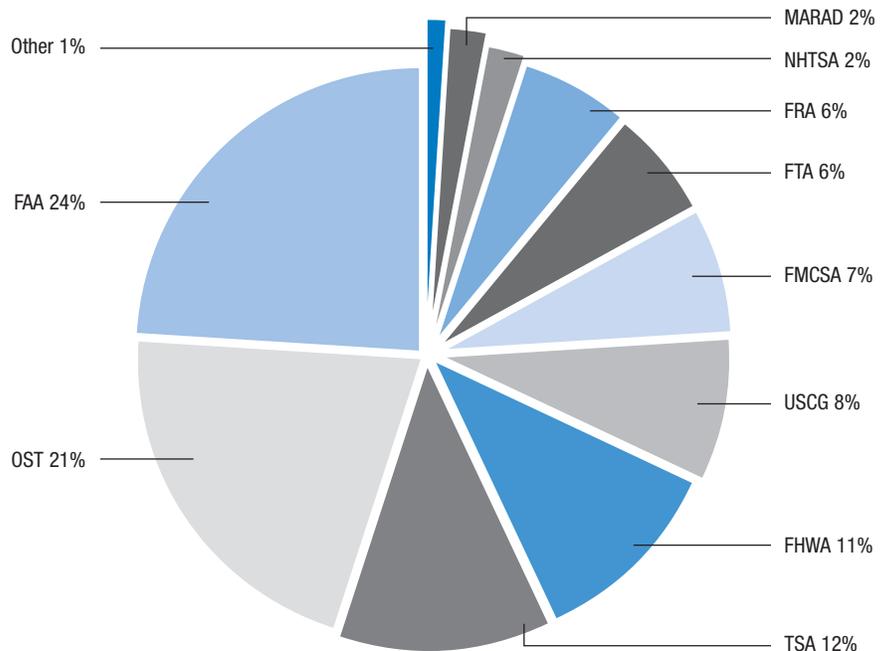
Operating Administration/ Type of Report	Report Number	Date Issued	Title	Focus of Report/ Recommendations
Office of the Secretary of Transportation				
<i>Internal Audits: Program/Functional—3 reports</i>				
	CR-2003-001	10-03-02	Midway Airlines Air Carrier Compensation Payments	Put \$687,143 to better use
	FI-2003-010	01-09-03	Shutdown of the Transportation Computer Center	\$1,400,000 questioned
	FI-2003-032	03-28-03	Energy Management and Conservation Program	Further reductions of energy consumption possible
<i>Internal Audits: Chief Financial Officer Financial Statement—1 report</i>				
	FI-2003-018	01-27-03	Consolidated Financial Statements for Fiscal Years 2002 and 2001	Unqualified opinion on financial statements
<i>Other Internal OIG Reports—1 report</i>				
	PT-2003-012	01-21-03	Top Management Challenges	Top management challenges related to DOT's ongoing missions
Transportation Security Administration				
<i>Internal Audits: Program/Functional—5 reports</i>				
	AV-2003-005	12-11-02	Implementation of Veterans' Preference in Screener Hiring	High proportion of veterans hired; more consistency required in screener hiring
	AV-2003-027	02-28-03	Security at Aircraft Repair Stations	Improvements needed in repair station security
	FI-2003-025	02-28-03	Security Screener Contracts	\$179,000,000 questioned
	SC-2003-026	02-28-03	Screener Security Program	Additional actions needed to correct weaknesses
	SC-2003-029	03-14-03	Federal Air Marshal Program	Program expanded and strengthened, but specific improvements needed
<i>Internal Audits: Chief Financial Officer Financial Statement—1 report</i>				
	QC-2003-016	01-27-03	Financial Statements for Fiscal Year 2002	Unqualified opinion on financial statements
<i>Other Internal OIG Reports—2 reports</i>				
	SC-2003-023	02-27-03	Progress Implementing Sections 106 and 138 of the Aviation and Transportation Security Act	Actions needed to fully implement security provisions
	SC-2003-024	02-28-03	Proposed Aviation Security Technologies	Further research needed on aviation security technologies
Saint Lawrence Seaway Development Corporation				
<i>Internal Audits: Chief Financial Officer Financial Statement—1 report</i>				
	QC-2003-021	02-20-03	Financial Statements for Fiscal Years 2002 and 2001	Unqualified opinion on financial statements

Application of Audit Resources by Operating Administration

October 1, 2002–March 31, 2003

Note: Resources shown for OST include time spent performing audits of the DOT Consolidated Financial Statement (which includes all Operating Administrations) and Air Transportation Safety and System Stabilization Act activities, including air carrier compensation payments and loan guarantees for the airline industry.

The wedge 'Other' represents resources expended on the Research and Special Programs Administration, St. Lawrence Seaway Development Corporation, National Transportation Safety Board, Bureau of Transportation Statistics, and Surface Transportation Board and totaled less than 1 percent each.



Office of Inspector General Congressional Testimonies

October 1, 2002–March 31, 2003

Control No.	Testimony Date	Subject	Congressional Body
CC-2003-027	11-19-2002	Computer Security Challenges Within the Department of Transportation	Committee on Government Reform; Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations; U.S. House of Representatives
CC-2003-066	02-05-2003	Aviation Security Costs, Transportation Security Administration	Committee on Commerce, Science, and Transportation; Subcommittee on Aviation; U.S. Senate
CC-2003-068	02-11-2003	The State of the Federal Aviation Administration	Committee on Commerce, Science, and Transportation; U.S. Senate
CC-2003-058	02-12-2003	Reauthorization of the Federal Aviation Administration	Committee on Transportation and Infrastructure; Subcommittee on Aviation; U.S. House of Representatives
CC-2003-080	03-13-2003	Appropriations Issues for the Department of Transportation FY 2004 Budget	Committee on Appropriations; Subcommittee on Transportation, Treasury, and Independent Agencies; U.S. House of Representatives

Status of Unresolved Recommendations Over 6 Months Old

Cited in Semiannual Report for Reporting Period —	Report No.	Date Issued	Status
<i>April 1–September 30, 2000</i>			
Contract Towers: Observations on FAA's Study of Expanding the Program	AV-2000-079	04-12-00	Awaiting additional information from FAA
<i>October 1, 2000–March 31, 2001</i>			
Airport Noise Compatibility Program	AV-2001-012	12-14-00	Awaiting additional information from FAA
Castle Joint Powers Authority, California	QC-2001-022	02-14-01	Working with grantee to resolve issues
Gary Public Transportation Corporation, Indiana	QC-2001-027	02-16-01	Working with grantee to resolve issues
<i>April 1–September 30, 2001</i>			
State of Indiana	QC-2001-052	04-11-01	Working with grantee to resolve issues
Government of U.S. Virgin Islands	QC-2001-053	04-17-01	Working with grantee to resolve issues
Compensation Issues Concerning Air Traffic Managers, Supervisors, and Specialists	AV-2001-064	06-15-01	Working with FAA to resolve open issues
Despite Significant Management Focus, Further Actions Are Needed to Reduce Runway Incursions	AV-2001-066	06-26-01	Working with FAA to resolve open issues
<i>October 1, 2001–March 31, 2002</i>			
Milford Transit District, Connecticut	QC-2002-021	10-30-01	Working with grantee to resolve open issues
Downtown Waycross Development Authority, Georgia	QC-2002-027	10-31-01	Working with grantee to resolve open issues
State of Minnesota	QC-2002-030	10-31-01	Working with grantee to resolve open issues
State of Indiana	QC-2002-032	10-31-01	Working with grantee to resolve open issues
Government of U.S. Virgin Islands	QC-2002-051	11-06-01	Working with grantee to resolve open issues
Operational and Supportability Implementation System	AV-2002-064	12-07-01	Working with FAA to resolve open issues
Review of FAA's Oversight of Aircraft Maintenance	AV-2002-066	12-12-01	Working with FAA to resolve open issues
FAA's Acquisition of Aviation Weather Systems	AV-2002-084	02-28-02	Working with FAA to resolve open issues
<i>April 1–September 30, 2002</i>			
Information Technology Omnibus Procurement Program	FI-2002-089	04-15-02	Working with DOT to resolve open issues
Actions Taken to Recover Excess Reserves from Central Artery/Tunnel Project's Owner-Controlled Insurance Program	IN-2002-095	07-22-02	Working with FHWA and Central Artery Project officials to resolve open issues
Metropolitan Council, St. Paul, MN	QC-2002-107	08-22-02	Working with grantee to resolve open issues
Southeastern Pennsylvania Transportation	QC-2002-111	09-16-02	Working with grantee to resolve open issues

Note: A total of 95 recommendations were transferred to the Department of Homeland Security for resolution — 7 for FAA, 11 for the Coast Guard, and 77 for TSA.

Required Statements:

The Inspector General Act requires explanations of reasons for significant revisions to management decisions made during the reporting period. OIG follows up on audits reported in earlier Semiannual Reports. During this reporting period, there were no significant revisions of Departmental management decisions reported to OIG.

The Inspector General Act requires this report to describe any significant management decisions with which the OIG disagrees. At the close of this reporting period, there were no significant management decisions with which OIG disagreed.

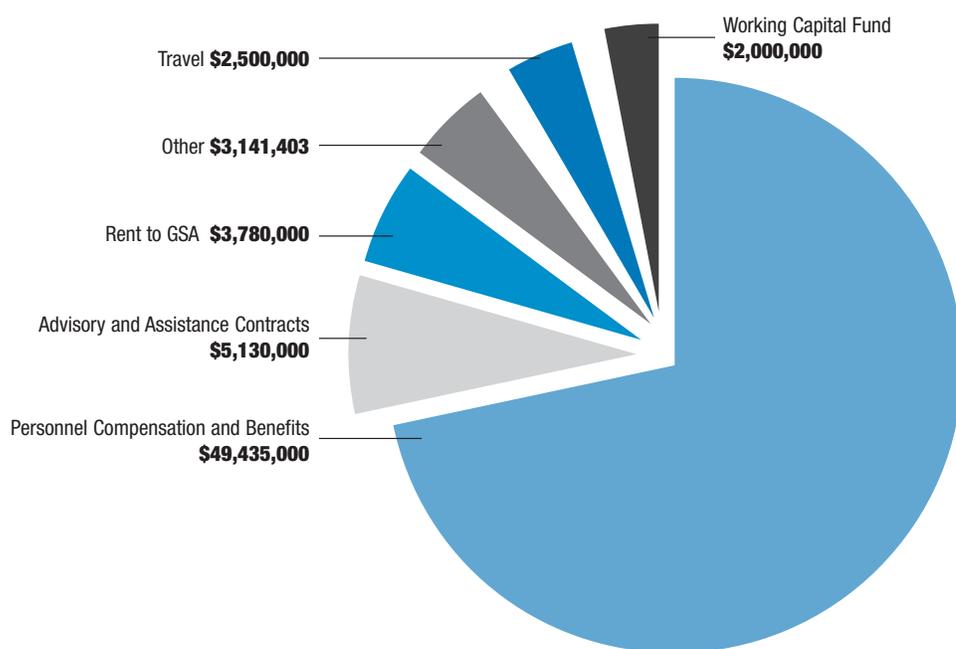
MISSION, ORGANIZATION, & CONTACTS

The Office of Inspector General for the Department of Transportation was created by Congress through the Inspector General Act of 1978 (Public Law 95-452). The act sets several goals for OIG:

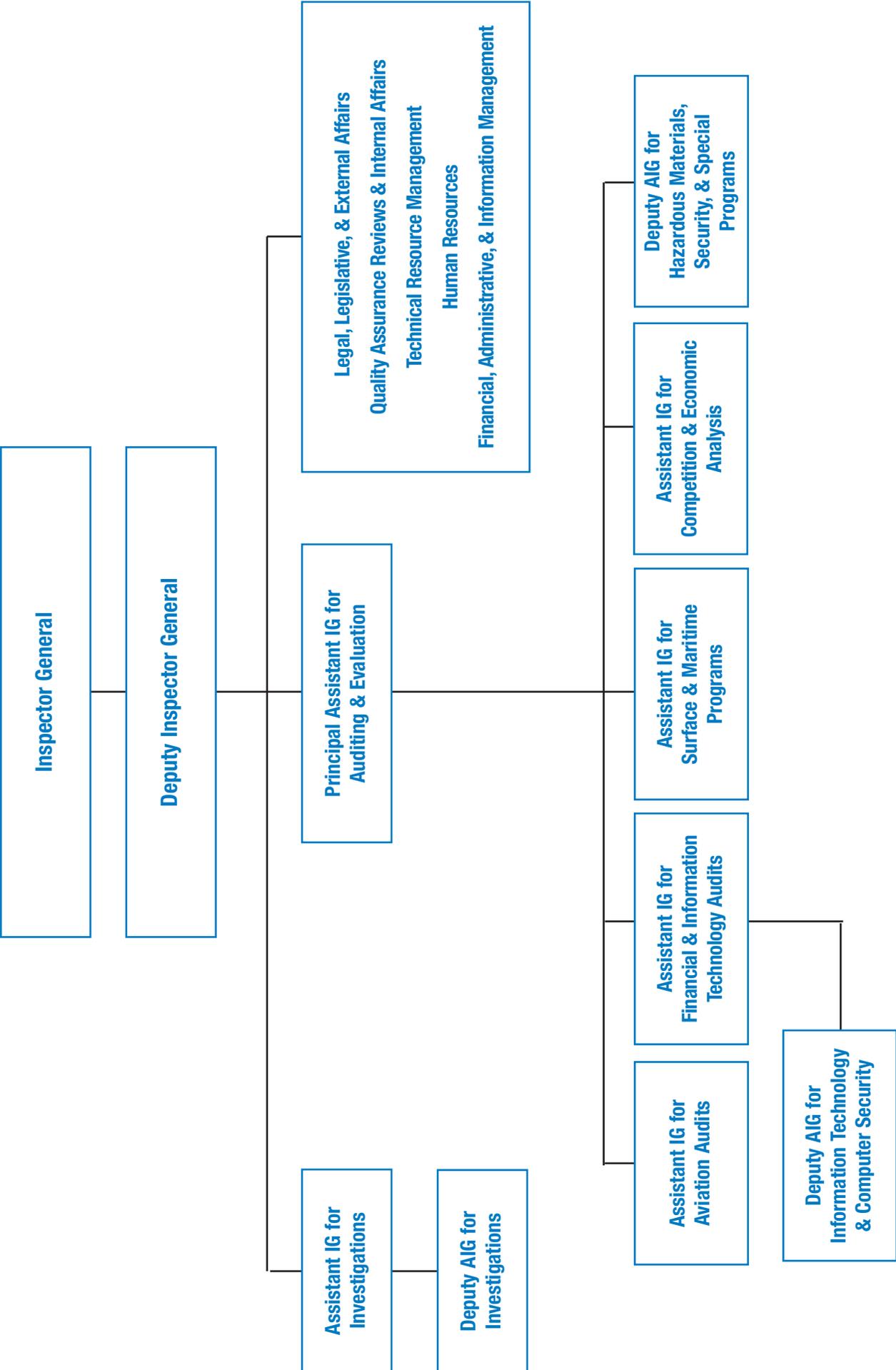
- To conduct or supervise objective audits and investigations of DOT's programs and operations;
- To promote economy, effectiveness, and efficiency within DOT;
- To prevent and detect fraud, waste, and abuse in the Department's programs;
- To review existing and proposed laws or regulations affecting the Department and make recommendations about them;
- To keep the Secretary of Transportation and Congress fully informed about problems in departmental programs and operations.

OIG FY 2003 Budgetary Resources

Total: \$65,986,403



OIG is divided into two major units and five support units. The major units are the Office of the Principal Assistant Inspector General for Auditing and Evaluation and the Office of Assistant Inspector General for Investigations. Each has headquarters staff and field staff. The support units are the Office of Legal, Legislative, and External Affairs; the Office of Technical Resource Management; the Office of Human Resources; the Office of Financial, Administrative, and Information Management; and the Office of Quality Assurance Reviews/Internal Affairs.



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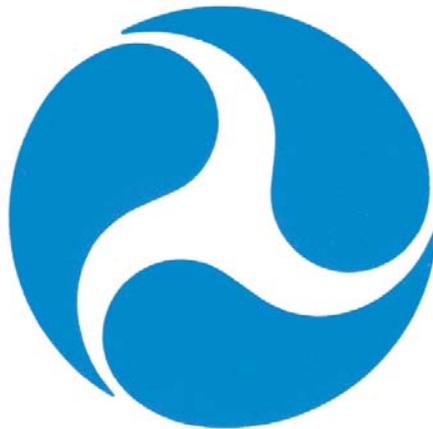
fax: 202-366-7749

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OIG website: <http://www.oig.dot.gov>

ACRONYMS

AIG	Assistant Inspector General
AIP	Airport Improvement Program
AIR-21	Aviation Investment and Reform Act for the 21st Century
ATOP	Advanced Technologies and Oceanic Procedures
BTS	Bureau of Transportation Statistics
CDL	Commercial Driver License
DCIS	Defense Criminal Investigative Service
DOT	Department of Transportation
DUI	driving under the influence
EPA	Environmental Protection Agency
FAA	Federal Aviation Administration
FBI	Federal Bureau of Investigation
FHWA	Federal Highway Administration
FMCSA	Federal Motor Carrier Safety Administration
FRA	Federal Railroad Administration
FTA	Federal Transit Administration
GSA	General Services Administration
ICEMAN	Integrated Computing Environment Mainframe and Network
INS	Immigration and Naturalization Service
IRS	Internal Revenue Service
IT	information technology
MARAD	Maritime Administration
MOU	memorandum of understanding
NAFTA	North American Free Trade Agreement
NHTSA	National Highway Traffic Safety Administration
NTSB	National Transportation Safety Board
OIG	Office of Inspector General
OMB	Office of Management and Budget
OST	Office of the Secretary of Transportation
PFC	passenger facility charge
RSPA	Research and Special Programs Administration
SafeStat	Safety Status Measurement System
TEA-21	Transportation Equity Act for the 21st Century
TREAD Act	Transportation Recall Enhancement, Accountability, and Documentation Act of 2000
TSA	Transportation Security Administration
USCG	United States Coast Guard



U.S. Department of Transportation

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